

Exhibit 5



Proposal



Partnering to build the new Detroit Water and Sewer Department

May 20, 2014

Executive summary

- 1 > Close quickly on terms that deliver max. value
- 2 > Transition operational risk and employees
- 3 > Lead with top managers
- 4 > Operate the utility while driving change
- 5 > Protect and extend the life of DWSD assets

Conclusion

Handbook
(under separate cover)

This Proposal constitutes a non-binding indication of interest on the part of Veolia and Guggenheim and is not intended to, and does not create, a legally binding commitment or obligation on the part of either Veolia or Guggenheim. Neither Veolia nor Guggenheim will have any liability or obligation to the City of Detroit or the Detroit Water and Sewer Department or any of their affiliates, or any of their creditors, lenders, agents, representatives or investment bankers, by reason of this Proposal or otherwise. The certainty of such a legally binding commitment or obligation is subject, among other things, the satisfactory completion by Veolia and Guggenheim of a thorough due diligence investigation and the negotiation, execution and delivery of definitive agreements (the "Definitive Agreements"). The Definitive Agreements shall contain conditions precedent, representations, warranties, covenants and other terms customary for transactions of a similar nature. Prior to becoming effective, the Definitive Agreements shall require, among other things, certain approvals by various internal committees of both Veolia and Guggenheim.

Portions of the information contained herein contain confidential information, ideas, know-how, concepts, processes, and trade secrets (collectively "Confidential Proprietary/Trade Secret Information") that are sole property of team members including Veolia, Guggenheim Securities LLC and Guggenheim Partners. The proprietary contents of this proposal are intended solely for use in this proposal and may not be disclosed except to persons who are involved in the evaluation of the proposal or award of the contract. Release of confidential proprietary/trade secret information would place the team members at a serious and irreparable competitive disadvantage in future procurements by providing competitors with information that the team members maintain strictly confidential and which is unavailable to any third-party except under restrictions contained in a nondisclosure agreement or protections that cover this information except under applicable law. If a third-party makes a request for disclosure of any of the contents of this proposal, you are requested to notify Veolia and Guggenheim immediately so that Veolia and Guggenheim will have an opportunity to provide assistance in protecting the proprietary contents of this proposal.

EXECUTIVE SUMMARY

VEOLIA: OPTIMAL PARTNER TO ACCOMPLISH AN UNPRECEDENTED REVIVAL

"Veolia has made good so far on its promise to generate \$35 million in savings."

Kevin Shafer, P.E.,
Executive Director,
Milwaukee Metropolitan
Sewerage District

Veolia, building on the progress made by DWSD Director Sue McCormick and her team, proposes an operation and maintenance (O&M) plan that immediately benefits DWSD and its customers by monetizing efficiencies with projected operating savings¹ of \$2.5 billion. Our proposal expedites the drive to efficiency with a plan to bring DWSD back to a pre-eminent position in the US water and wastewater industry.

Our proposal leverages the capability and institutional knowledge in place, combining it with Veolia's know-how and experience to build a new, innovative DWSD.

Our vision is clear and goal ambitious. We think it aligns with DWSD's and its customers. And our commitment is demonstrated in our proposed lump sum payment as well as with the clarity of our approach and demonstrable resources we will bring. Highlights of our proposal include:

- Our proposal follows closely with the Term Sheet received and clearly states our assumptions and variations so that we can negotiate a full agreement well within the time period available. We also clearly outline our expectations with respect to due

The Veolia and Guggenheim proposal will cost DWSD no more than the Conway-MacKenzie projections coupled with the ability to make PILOT payments and to save an additional \$2 billion over 20 years.

Veolia has teamed up with Guggenheim Securities, LLC ("Guggenheim") to provide DWSD with proposal combining the highest highest level of efficiencies and world-class operating capability with a flexible financial strategy for upfront payments package.

Veolia's proposal includes:

- World-class operating capabilities.
- Projected operational savings¹ of **\$2.5 billion**.
- Operational savings provide for:
 - ~ The ability for DWSD for make an annual PILOT of **\$26,200,000** every year starting in year one of the transaction; this is entirely funded by savings from the Conway-MacKenzie opex projections, and
 - ~ **\$2 billion** of additional savings which can either be used to provide additional rate relief and/or provide additional investment capital for the system to deliver additional efficiencies and benefits.
- Projected capital expenditure savings of **\$452 million**.
- Flexible financing approach to mutually address financing needs of the system, their positive operational impacts on the System.

¹ Savings are relative to the Adjusted Conway-MacKenzie Projections, as defined herein.

EXECUTIVE SUMMARY

VEOLIA: OPTIMAL PARTNER TO ACCOMPLISH AN UNPRECEDENTED REVIVAL

Pittsburgh

"The Board challenged Veolia to find new sources of revenue and pass the 2013 budget with no layoffs and no rate increase. They not only met our challenges, but far exceeded our expectations."

Dan Deary, Past
PWSA Chairman

NYC

"For FY 2014 alone, DEP is cutting its operating budget by 4% to save \$37 million, including the [Veolia] Operational Excellence, or OpX, program initiatives."

Carter Strickland, Past
NYCDEP Commissioner

More than 75 cost-saving initiatives implemented through March 2014 are projected to save \$69.4 million per year. DEP anticipates additional cost-saving initiatives implemented by the end of FY14 will produce recurring annual cost benefits of \$88.4 million.

NYCDEP Press Release
23 April 2014

diligence to validate our offer and have the necessary resources allocated to the plan we propose.

- Veolia's experience **transitioning** large utilities is the basis of our transition plan which is enhanced due to the organizational change that is ongoing at DWSD. We expect a seamless transition with no disruption of service.
- The proposed **organization** integrates the talent already in place with experienced Veolia managers who will work along side DWSD's current team. David Gadis, former CEO of Indianapolis Water, will be our General Manager reporting directly to Director Sue McCormick. David will work closely with Ms. McCormick to determine the best management team for the new DWSD. Our draft organization chart indicates the people who will be involved from Veolia and the transformational organization we propose. We expect some adjustments as we enhance our understanding and work with Ms. McCormick as well as over time as we are able to become even more efficient.

- Veolia's **O&M plan** will first capture the current performance levels and then move quickly to drive efficiency and improve performance in some areas.
- Our proposed approach to **capital program management** is to first work with the local team (DWSD management and local engineers) that developed the current program so we have a complete understanding of the basis of its development and re-focus the plan, where possible and practical, towards efficiency improvements, projects that benefit retail customers and to address any shortcomings to asset condition identified in our initial assessment. To better protect DWSD assets and investments, Veolia uses a state-of-the-art maintenance management plan to build the capital program from the bottom up. It is a critical part of our proposal because it is the right thing to do, but also to achieve and maintain the savings efficiencies we have proposed.

The New DWSD Difference

CLOSE: The future DWSD benefits from financial terms which provide maximum long-term value to the City and the southeastern Michigan region.

TRANSITION: The future organization is on track to achieve greater efficiencies, as a smooth transition ensures continued compliance and institutional knowledge captured in easy to use operating manuals.

LEAD: The future leaders of DWSD are trained and groomed by Veolia experts to carry forward a culture of continuous improvement.

OPERATE: The future DWSD manages performance with key performance indicators tracked and displayed in near-real time and used as a tool to drive improvement.

PROTECT: The future capital program is budgeted using asset condition based on CMMS data, RGR schedules, and criticality analysis.

EXECUTIVE SUMMARY

VEOLIA: OPTIMAL PARTNER TO ACCOMPLISH AN UNPRECEDENTED REVIVAL

Your bid requirements

To expedite your review, Veolia has provided the below table which references our responses to your bid requirements.

Bid item	Veolia proposal
The amount and timing of the proposed fixed service fee and variable fee payable to Operator, including the proposed pass-throughs and deductions.	The amount of the Operator's fee is [XXX] in year one, for operations only, escalating every year at a relevant index; [YYY] for the amortization of the Upfront payment based on Opex savings; and [ZZZ] for the amortization of the upfront payment based on Capex savings. The total is [TTT1] if the City elects to proceed with an upfront payment based on Capex savings, and [TTT2] with only Opex savings. See pages Section 1.1 "Financial proposal" on pages 6-13 of this proposal document.
The amount of the proposed average annual cost savings Operator can provide the System during the term of the Agreement incremental to the savings identified in the 10-year DWSD Projections prepared by Conway MacKenzie as presented in the Fourth Amended Disclosure Statement dated May 5, 2014 (including the specific amount of proposed savings allocable to the retail customers of the System) (as set forth in "Cost Savings to System" above).	The upfront payment to DWSD is [AAA]. This includes [BBB] based on opex-based savings, and [CCC] based on capex based savings. The City may elect to go with both opex and capex-based savings, or with opex-based savings only. See pages Section 1.1 "Financial proposal" on pages 6-13 of this proposal document.
The amount of the proposed upfront payment to DWSD (as set forth in "Upfront Payment to DWSD" above).	Amount of Veolia's variable service fee (paid every [XXX])
Details of the proposed plan for capital improvements to be implemented during the term of the Agreement, including the methods of adjustment and City controls/approval requirements (as set forth in "Capital Improvements" above).	See Capital Plan (Section 8) in our accompanying handbook.
Details of the proposed methodology for determining key performance indicators, including the methods of adjustment, City controls/approval requirements and monetary incentives associated therewith (as set forth in "Key Performance Indicators" above).	See Transformation Plan (Section 4) in our accompanying handbook.
An employment plan setting forth the Operator's proposed pay and benefits plan for the System (as set forth in "Employment" above).	See Human Resources Plan (Section 5) in our accompanying handbook.
Any comments to the Term Sheet and/or deviations or additions to the Term Sheet which would add significant value to the transaction contemplated herein.	See pages Section 1.3 "Terms sheet assumptions and clarifications" on pages 15-25 of this proposal document.

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.1 > Financial proposal

\$2.5 billion
in projected
operational savings¹

¹ Savings are relative
to the Adjusted
Conway-MacKenzie
Projections, as
defined herein.

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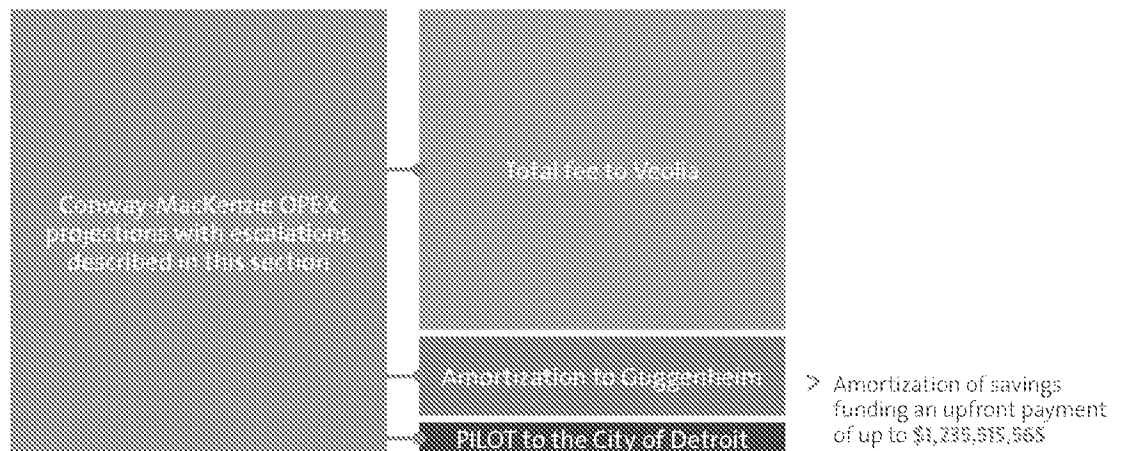
- > World-class operating capabilities.
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- > Flexible financing approach to mutually address financing needs of the system, their positive operational impacts on the System.

The Veolia and Guggenheim proposal will cost DWSD no more than the Conway-MacKenzie projections coupled with the ability to make PILOT payments and to save an additional \$2 billion over 20 years.



Below, we discuss the value proposition broken down into its components.

Revenue Starting Point for O&M Savings Upfront Payment

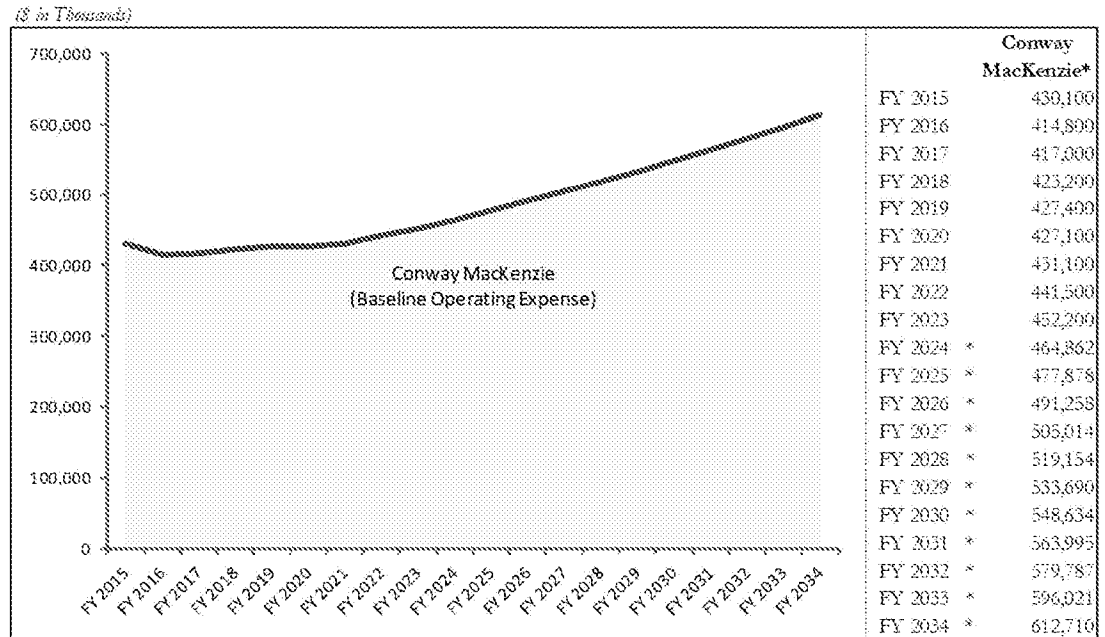
We have used the 10-year DWSD Projections

prepared by Conway MacKenzie as presented in the Fourth Amended Disclosure Statement dated May 5, 2014 and further projected in years 11-20 by a 2.8% escalator (the "Adjusted Conway-MacKenzie Projections"). These are shown at the top of the next page.

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.1 > Financial proposal (cont.)

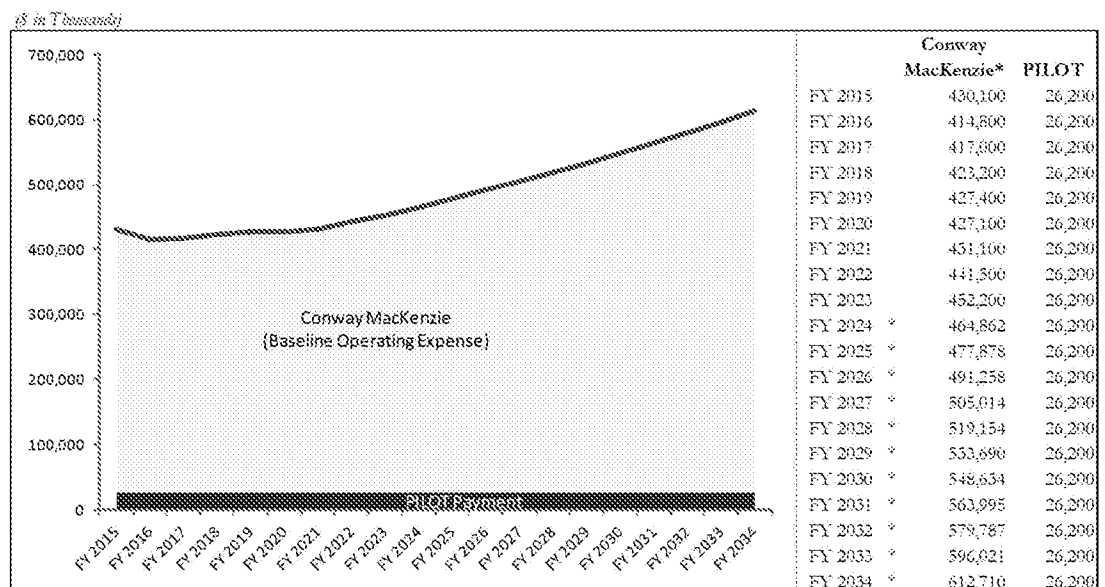
* Years 11-20 have been adjusted by a 2.8% annual escalator.



Provision for PILOT Payment

From the Adjusted Conway-MacKenzie Projections, we have deducted \$26.2 million/year without escalation representing the PILOT Payment that DSWD will make to the City of Detroit (the "PILOT"). [Veolia estimates that

the portion of annual operational savings relative to the Conway-MacKenzie study related to the retail operational system exceed the annual PILOT amount]. These are shown below.



1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.1 > Financial proposal (cont.)

Veolia Cost to Operate the System

Summary: Veolia's fee to operate the System includes labor, maintenance and all other customary operating costs. The fee is escalated annually with a blended index, except for power and natural gas unit costs, which are inflated separately based on actual changes. The fee reflect Veolia's performance guarantees, and meets all 97-13 requirements, all as described in more detail below. Veolia's fee to operate the system (i.e. not taking into account the amortization of the upfront payment or the PILOT – strictly to operate the System) as shown below.

Veolia's fee will cover labor, power and natural gas, chemicals and other commodities, maintenance services and other customary operational expenditures. It will not cover capex or debt service. Veolia proposes adjustments to its fee, discussed in more detail below, for power and natural gas pricing, flows and loadings and biosolids disposal costs.

Power and natural gas: While Veolia would provide cost control by underwriting maximum usage and demand guarantees for the key consumers of these commodities, Veolia would not guarantee the unit cost of power (kWh and kW) or natural gas. Changes in these unit costs would be reflected separately based on actual charges from the utility providers.

During negotiations, Veolia is prepared to discuss payment of these utilities directly by DWSD, with Veolia still providing a guarantee for maximum usage and demand. This could potentially create substantial additional overall savings to the Department. For this proposal, Veolia assumes it will pay the utility bills.

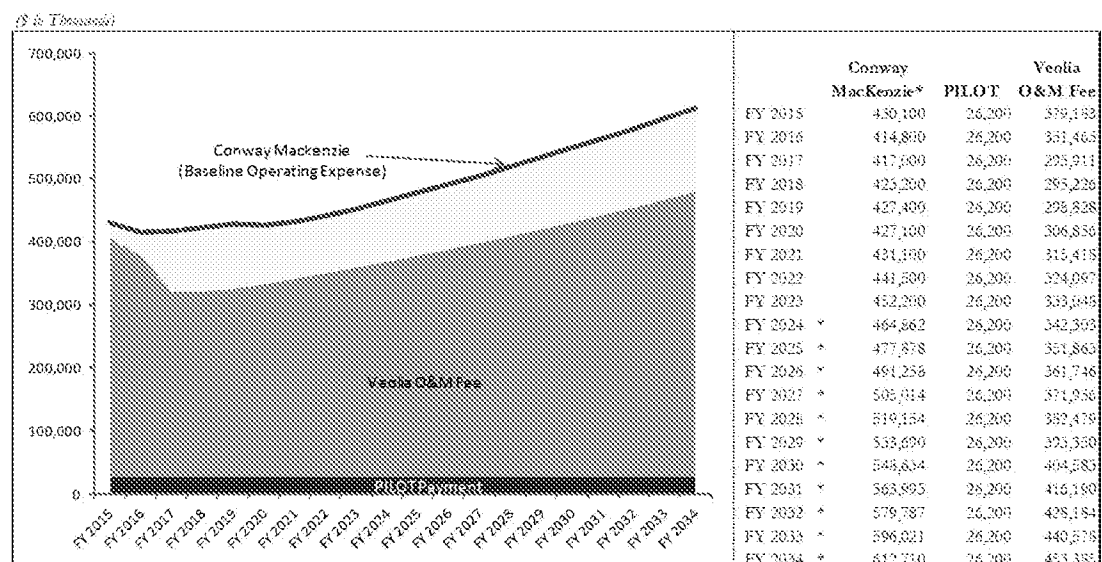
Flows and loadings: Should wastewater treatment or water treatment volumes increase by more than 2.5% compared to the 2014 baseline, Veolia's fee will be adjusted to reflect the additional variable costs incurred. Similar adjustments would be made if the quality of the water or the wastewater changed substantially compared to a 2014 benchmark to reflect the changes in chemical usage and other expenses.

Biosolids: Should biosolids disposal costs vary substantially due to changes in tipping fees, land availability for application procedures or landfill closings or relocation, Veolia's fee would be adjusted to reflect additional costs.

97-13 Considerations

These adjustments for utility unit costs, flows and loadings and biosolids would typically not exceed 3% of the fee in the aggregate – usually

* Note that these numbers are also shown with inflation for ease of reading, but would be expressed in 2014 dollars and escalated



1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.1 > Financial proposal (cont.)

less. They might be counted as a variable component of the fee or not. Still, they should not threaten the 97-13 eligibility of the fee.

The other element of variability to take into consideration for 97-13 purposes is the amount payable for KPIs. Veolia is very familiar with 97-13 considerations, applying them to more than 150 municipal contracts in the United States. Our experience with KPIs in relation to 97-13 is that they are counted in the calculation; and that it is not worth threatening qualified management contract eligibility to maximize the variable payment with KPIs. Veolia proposes an approach to KPI's that has the following objectives (1) providing exceptional service levels over and above the high performance we are already targeting and (2) enabling DWSD to target performance areas that it wishes to focus on. The amounts of the KPI payments would be kept small; for the purposes of 97-13, KPIs will not have any significant impact on the variable fee component. Veolia's above methodology ensures that the variable component remains well below 20% even if the definition of the fee is strictly that of the operating cost component.

To the extent Upfront Payments are included in Veolia's fee, there is even less likelihood that an adjustment to Veolia's opex compensation would create an 97-13 issue.

Note on Inflation and Escalation

Veolia notes that the Conway-MacKenzie projections use a 2.5% inflation rate. For clarity, Veolia proposes to use actual inflation on the basis of the MacKenzie numbers to express the Veolia Cost to Operate the System in 2014 dollars.

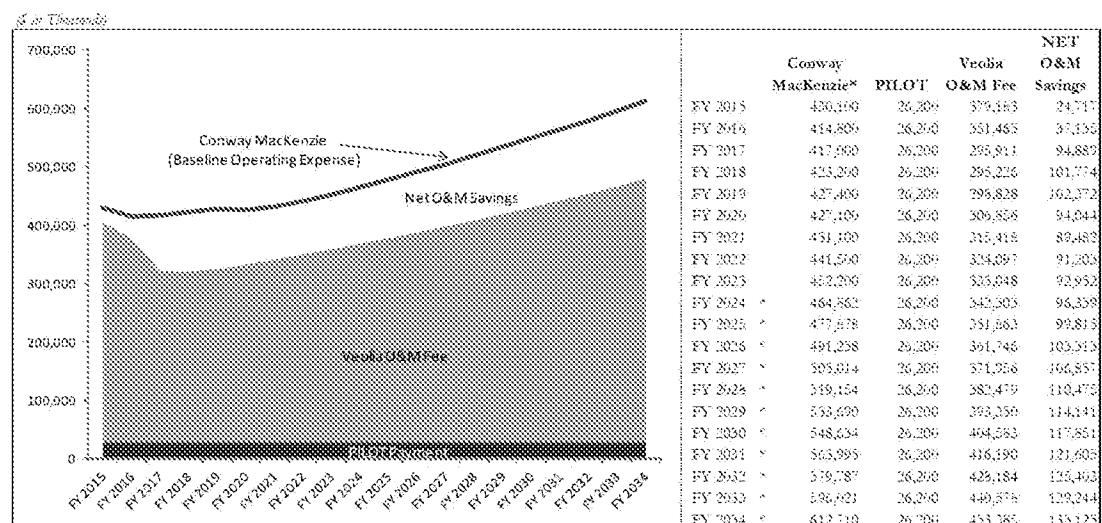
The operator fee from 2025 to 2034 will be inflated every year using an agreed operations cost-based escalator. Typically, the escalation index is a blend of an employment cost index (ECI) to represent the labor component; a chemical cost index (water treatment compound producer price index); and the generic CPI for the Detroit urban area. The mix and weight of each component of the escalator would be agreed with DWSD based on the starting cost base.

Net O&M Savings

The amounts remaining from the Conway-MacKenzie Adjusted Projections after deducting PILOT payments and Veolia Operating Costs are Net O&M Savings. These are shown on the graph below.

Monetizing all or a Portion of the O&M Savings

Based on the Net O&M Savings, Guggenheim provides a range of illustrative Upfront Payment options that DWSD can choose from,



Proposal for the Detroit Water and Sewerage Department

Confidential Proprietary/Trade Secret Information - Veolia and Guggenheim

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.1 > Financial proposal (cont.)

depending on which of Veolia's cost-efficiency capital projects are selected for implementation, as discussed below.

Guggenheim calculated the Upfront Payments associated with scenarios of 25%, 50% and 75% of the O&M cost-savings converted into Upfront Payments, as shown in the table below. Depending on which of Veolia's cost-efficiency improvements are selected by DWSD, a blend of Upfront Payments and annual O&M savings can result, and Guggenheim and Veolia are prepared to work closely with DWSD and its advisors to optimize this for DWSD's specific objectives.

Monetize O&M Savings

Usage	O&M Savings*	Upfront Payment	Additional Savings From Investment
100%	\$ -	\$ 1,058	
75%	497	798	
50%	993	539	
25%	1,490	278	
0%	1,987	-	

*Savings are net of PILOT Payment

At one end of the spectrum with no Upfront Payment, all of Veolia's O&M cost-efficiencies result in reduced O&M costs in each year, with a total of close to \$2 billion (\$1.987 billion) in operational cost savings over the 20-year period. If all of these savings were converted into an Upfront Payment, \$1.058 billion could be paid upfront for incremental cost-efficiency projects identified by Veolia, with no annual O&M savings as a result.

To the extent all or a portion of Net O&M Savings are converted to an Upfront Payment, the following points would apply:

- > A schedule of fixed payments would be provided to amortize the O&M Savings Upfront Payment. This would be in addition to the Veolia Cost to Operate the System.
- > The Upfront Payment made to DWSD would be used to make capital expenditures associated with the System, as described in more detail herein.

> The Upfront Payment has associated capitalized interest in initial years, a debt service reserve fund, and associated costs of issuance. Capitalized interest is added in initial years, where savings are not high enough to support loan repayment. A debt service reserve fund is sized for each loan equal to the lesser of 10% par or maximum annual debt service or 125% average annual debt service. At the end of repayment period (20 years), the debt service reserve fund balance is "rebated" to DWSD as additional savings.

> Guggenheim believes all of a portion of the interest on loans associated with Upfront Payments could be tax-exempt, assuming DWSD and its advisors provide certain certifications and opinions, there is a reasonable expectation that such expenditures can be made within a three years period, and to the extent the expenditures are capital in nature. We have conservatively assumed that only the first \$200 million of the Upfront Payment loan is tax-exempt and the remainder taxable. Guggenheim proposes to work with DWSD and its advisors to ensure the maximum amount of tax-exemption can be achieved.

> Guggenheim has assumed interest rates for the Upfront Payment loans would reflect an "A" rating, which assumes a post-emergence "premium" that investors may demand as DWSD re-enters the capital markets.

For the Upfront Payment, DWSD would make the following covenants:

- > To pay the O&M and Cap Ex Upfront Payment components in monthly installments in advance on the [first] of the month for [240] consecutive months beginning the month of the Effective Date. The schedule of annual O&M Upfront Payments is provided as Attachment [2]. The Company has the right to assign the Upfront Payment component for financing purposes.
- > The obligation of the DWSD to pay each

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.1 > Financial proposal (cont.)

month the Upfront Payment components of the O&M Payment shall be absolute and unconditional, subject only to the DWSD flow of funds and not subject to set-off or performance of other obligations hereunder by the Company.

- To the extent this contract is terminated pursuant to its terms for any reason, DWSD shall have the obligation to directly assume the obligation for its remaining term or to make a termination payment equal to the outstanding principal, any associated redemption premium, and accrued interest to the date of termination.
- For rate setting and other purposes, DWSD agrees to include in each year's budget the 1. O&M Upfront Payment component, 2. Cap Ex Upfront Payment component, 3. Fixed Fee component, and [an estimate of the Variable Fee component determined in good faith with the Company].
- As part of closing, DWSD will cooperate in providing certificates and obtaining customary opinions necessary for financing and tax exempt treatment of the Upfront Payments, including useful life of assets, expected construction period, maintenance of records, and reinvestment of Upfront Payment proceeds.

Use of the proceeds from the upfront payment

One of the critical elements of the transaction will be the use of the upfront payment.

Total upfront payment in the Veolia-Guggenheim proposal: \$1.058 billion

Investments identified by Veolia to date in addition to the current capex program: \$1.4 billion, including \$1.2 billion for water and wastewater investments within city limits and \$200+ million for investments that will reinforce DWSD's capabilities and performance for the long term.

Veolia proposes the following approach. We have identified two primary uses for the funds, for a total of \$xxx: (1) certain key

investments that will benefit the residents of the city; (water mains replacement in the City and green infrastructure including demolishing vacant homes); and (2) certain key investments that are not included in the current capital plan but may reinforce the System's reliability and sustainability.

Investments that will benefit the retail customers: \$1.2 billion total estimated capex

Water mains: \$530 million of additional capex

One of the key issues facing the retail customers is the condition of the water mains, which is threatening the condition of Detroit's streets and infrastructure. The proposed capital program currently plans for around 19 miles of water mains replacement every year on average (5 large diameter and 14 small diameter), which represents around 0.5% of the total. The cost for this program is around \$440m. A general benchmark is that water mains have a 100-year life expectancy, and that 1% of the network should be replaced every year in a mature city like Detroit. Given the state of infrastructure investment in Detroit over the last years, it would make sense to increase that rate for a period; up to 2% to address some of the more threatening situations and address water system-related pothole and sinkhole issues, with an emphasis on faster replacements in the next four years.

As a result, Veolia proposes to quadruple the replacement rate of water mains per year over the next four years compared to what is included in the capital program, adding 57 miles per year (228 miles over four years). This will cost an estimated \$530m over the next four years (using the same cost base of \$5m per large diameter mile and \$1m per smaller diameter mile).

Green infrastructure, including demolishing of houses: \$700+ million total estimated cap ex, resulting in \$500+ million of avoided costs to the City.

One of the critical issues in Detroit is that of the so-called blighted neighborhoods, and the challenge (and cost) of demolishing

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.1 > Financial proposal (cont.)

vacant houses. The City proposes to fund this program from the General Fund.

Veolia believes the blighted neighborhood issue falls squarely within DWSD's mission, on two fronts: (1) water and sewer connections at these homes need to be turned off; and (2) the land offers an opportunity to manage stormwater using green infrastructure techniques.

By some estimates, there are 80,000 houses to be torn down. The Detroit Blight Authority estimates that the costs to fix or demolish these abandoned properties would cost between \$500 million and \$1.5 billion. The City appears to have reserved in excess of \$500 million for this program.

Veolia submits that this can be a DWSD mission. In particular, the use of the vacated land is better addressed by DWSD than any other agency. Veolia proposes to turn vacated land into stormwater management facilities using green infrastructure techniques. Large green infrastructure programs are under development and implementation in various parts of the country; by some estimates, turning land into stormwater management facilities using green infrastructure can cost \$40 million per 1,000 acres (this was recently put forth by Prince George's County, MD in a program that the US EPA has acknowledged as stormwater management). Assuming that 80,000 houses represent an aggregate surface area of 10,000 acres and that half of them could be repurposed for stormwater management using green infrastructure, the green infrastructure program could cost \$200 million. In order to implement the plan, DWSD would also demolish the houses, at a cost of upwards of \$500m – instead of the City, saving the City those critical funds.

Investments to reinforce the System's reliability and performance: \$200 million+ total estimated capex

\$200+ million in incremental investments, made up of:

Large water meter change-out program: \$2 million, which could result in a 10% increase in revenue from meters 3-inch and above overall

Biosolids: possible \$60 million to ensure the reliability of the future driers by adding digesters

Sewer mains: \$100 million in additional investments to reduce inflow and infiltration and reduce treatment costs (and address potential sinkhole issues)

Energy savings: \$45 million of investments to reduce energy consumption, in addition to currently planned investments

Large water meters: Veolia has unparalleled experience and expertise in the area of revenue enhancement through optimized meter management. Veolia has the most advanced meter test bench in the United States, testing for 11 points (instead of the 3 points recommended by AWWA). Veolia has developed a methodology by which it tests meters to identify those that need to be prioritized for maintenance or change-out. Often times these priority meters are not simply the oldest ones: recently installed meters can underperform when properly tested using the advanced testing techniques developed by Veolia. In New York, Veolia has helped the City implement a meter change out program that will result in over \$40 million of additional annual revenues, based on a better selection of large meters that needed to be replaced. In Detroit, Veolia estimates that the additional revenue from large meters alone (3-inch and above) can be increased by 10% using this approach. This could create substantial additional revenues to DWSD on an annual basis, which the department could use to mitigate rate increases or decrease its reliance on debt funding.

The System has 3,438 large meters (not counting the wholesale meters). In New York and Pittsburgh, our experience has led us to estimate that around one half of those meters would be changed out to produce this additional revenue (provided the correct half is replaced). This would represent a capital cost of around \$2 million with labor, for a very substantial return on investment.

Biosolids: Veolia monitored the biosolids project closely as it went through its various

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.1 > Financial proposal (cont.)

reviews and procurement cycles, communicating frequently with DWSD's staff and submitting several concepts and proposals. However, Veolia did not submit in the final phase due to a difference in the technical approach. In particular, Veolia believed that the driers needed to be preceded by digesters in the processing train for a reliable solution. The solution that was selected for implementation does not include digesters. Veolia will review the selected solution in collaboration with NEFCO to ensure its reliability when implemented. This may mean the addition of digesters prior to the proposed driers, an investment of approximately 60 million dollars.

Sewer mains: Similar investment backlog issues exist on the sewer main side as for water mains, with different results. In this case, the inflow and infiltration issues created by cracked sewers results less in sinkholes (although that is also an issue) than in additional treatment costs: water enters the sewers that should be kept out of them, and end up in the system to be treated at the plants. Addressing the inflow and infiltration issues would reduce treatment costs as well as ensure the sustainability of the System. In addition, Veolia would propose to update the hydraulic model of the collection system to support the Department's adaptive management of its wet weather flows. Veolia believe that this update will better reflect the CSO challenge of the system and result in additional investments. The sewer mains element of this proposal will require further diligence, but Veolia believes that \$100 million or more in new projects could be derived from it (in addition to the \$120 million already in the plan).

Veolia's full methodology, including a matrix showing the project-by-project review supporting the analysis, is referred to in the capital program approach of Veolia's proposal.

Energy savings: Veolia has identified energy savings that will reduce the cost of operating the plants. These energy savings are dependent on capital investments. Some of these investments are included in the existing capital program. However, Veolia has estimated an additional 45 million dollars in energy savings investments.

CAPEX Savings

In addition, Veolia proposes a structure which identifies possible savings off the proposed capital program. **Veolia's analysis shows the potential to save an additional \$452,000,000 relative to DWSD's current capital plan.**

Veolia has analyzed the capital program and determined that savings are possible based on two considerations:

- > Deferral or elimination of certain projects that Veolia does not feel need to be implemented in the next ten years.
- > Reductions in the cost of delivering the remaining projects, through the use of more advanced capital delivery techniques and the restructuring of the department's capital program management function.

This would not significantly impact DWSD O&M pricing but would decrease DWSD debt service in future years, as additional CIP-related debt was issued. Assuming additional CIP-related debt is issued at a 4.63% rate and over a 20-year period, Guggenheim calculates that the \$452 million in CAPEX savings results in \$700 million in debt service savings to DWSD.

The revised CAPEX is as follows (we have assumed only one half of the FY 2014 and 2015 savings are realized):

	FY2014 & FY2015	FY2016 & FY2017	FY2018 & FY2019	FY2020 & FY2021	FY2022 & FY2023	Total
Original CIP Grand Total	\$597,300,000	\$570,730,000	\$460,740,000	\$460,400,000	\$275,050,000	\$2,364,220,000
Optimized CIP Grand Total	\$576,400,000	\$469,780,000	\$362,095,000	\$304,030,000	\$188,490,000	\$1,900,795,000
Savings	\$20,900,000	\$100,950,000	\$98,645,000	\$156,370,000	\$86,560,000	\$463,425,000

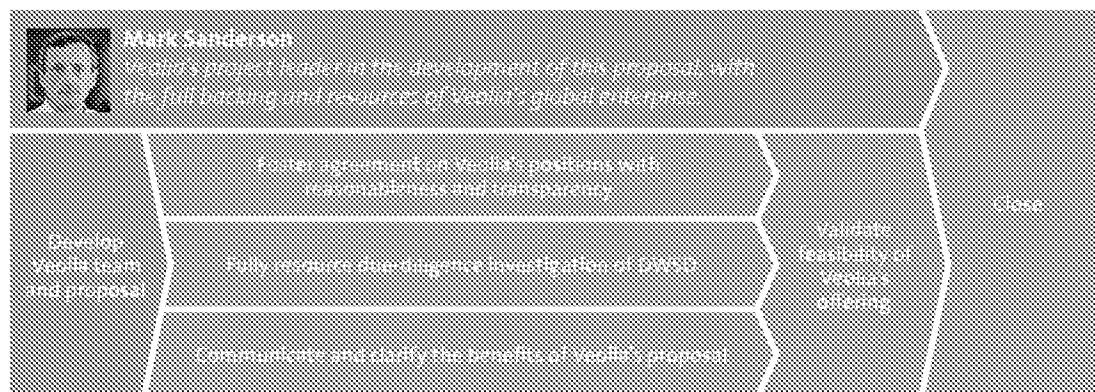
1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.2 > Plan to close

Veolia's plan to close this transaction is based on our belief that the time available is adequate if we are efficient, candid and reasonable in our approach. With this in mind we propose a plan to close that includes the following key elements:

- > **Mark Sanderson**, Veolia's project leader in the development of this proposal, will lead a fully resourced team through the contract signing date. Dedicating the required resources ensures that whatever work is necessary to assess respective positions or address issues can be done in the most expeditious way. Our team will be fully focused and available and have the full attention of our executive management to quickly get any approvals necessary.
- > Veolia's **positions, exceptions and assumptions** are fully declared and explained in this proposal (see section 1.3 that follows.) This will expedite our discussions as well as point to the areas where trade-offs are possible, agreement can be reached quickly and parts that will take more time.
- > **Reasonableness and transparency** are hallmarks of our approach. We believe we should manage risk we can control and are entitled to a fair profit for the value we bring. We also believe that DWSD's customers require control stay with the public sector and that rates should be affordable and bound to the value received.
- > **A fully resourced due-diligence approach** is an important part of our closing plan. In the Handbook to Support: Partnering to Build the New DWSD (Handbook) we outline in more detail the approach to due diligence as well as the data and access we will need. By dedicating a well-resourced team we anticipate being able to minimize the disruption on the organization as well as expeditiously complete the work that is necessary.
- > **Communicating the benefits and clarifying our proposal** to support the deliberations sure to occur within the region is also part of our plan. Having experienced these type of discussions many times in the past, our plan is meant to support your efforts, as needed, requested and approved by you.

Veolia's effort is led by Mark Sanderson and starts with the creation of this proposal. Through a process of communicating and clarifying deal points, fostering agreement between the City and Veolia, and completing a fully resourced due diligence, this transaction will reach a timely close



■ Upcoming plan-to-close items

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.3 > Terms sheet assumptions and clarifications

Item	Term	Veolia comment/assumption
1	PARTIES: The City of Detroit ("City") and [Operator] ("Operator") (individually, "Party", collectively, "Parties").	
2	TERM: Not to exceed 20 years, with extension only upon mutual agreement of the parties and in a manner consistent with applicable law. The City shall not be required to extend the Agreement.	
3	DEFINITIVE DOCUMENT(S): Operation and Maintenance Agreement between the Parties (the "Agreement") to allow for Operator's operation and maintenance of the Detroit Water and Sewerage Department ("DWSD") water supply system and sewerage disposal and treatment systems serving southeastern Michigan, including the City and other surrounding counties (the "System")	Veolia would be happy to provide a draft Operation and Maintenance Agreement to facilitate next steps.
4	<p>OWNERSHIP OF ASSETS: All System land, buildings, facilities, easements, rights of way, licenses, tools, materials, spare parts, communication and computer hardware and software use or installed, equipment, machinery, vehicles reflected on the DWSD balance sheet or hereafter acquired as part of or in connection with the System shall remain the property of DWSD as well as any structures and improvements added to the System or repairs made thereto, whether made or paid for by the City, DWSD, Operator or otherwise, unless specifically provided for otherwise. Nothing herein shall be deemed to constitute a sale, lease or other disposition of all or any of the assets of the System to the Operator.</p> <p>All System land, buildings, facilities, easements, rights of way, licenses, tools, materials, spare parts, communication and computer hardware and software use or installed, equipment, machinery, vehicles reflected on the DWSD balance sheet or hereafter acquired as part of or in connection with the System shall remain the property of DWSD as well as any structures and improvements added to the System or repairs made thereto, whether made or paid for by the City, DWSD, Operator or otherwise, unless specifically provided for otherwise. Nothing herein shall be deemed to constitute a sale, lease or other disposition of all or any of the assets of the System to the Operator.</p> <p>Upon expiration or termination of the Agreement, title to any equipment, vehicles and other personal property purchased by Operator for use in connection with the System shall be transferred to DWSD by appropriate instrument or documents of title at Operator's sole cost and free of all liens and encumbrances, subject only to termination of the Agreement by reason of DWSD's default.</p>	Our Due Diligence and System Assessment work include an asset condition survey which will identify "All System land, buildings, facilities, ... reflected on the DWSD balance sheet." It is important that we identify all these assets and the ones that we add over the term to ensure compliance with this section.

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.3 > Terms sheet assumptions and clarifications (cont.)

Item	Term	Veolia comment/assumption
5	<p>COMPENSATION TO OPERATOR: The City shall pay the Operator a fixed annual service fee of an amount to be agreed upon, paid on a monthly annual basis with an annual adjustment based on increases in CPI.</p> <p>In addition to the fixed fee, the City shall pay to the Operator a variable fee which shall be subject to customary and mutually agreeable pass-throughs and deductions as more particularly set forth in the Agreement. In no event can the variable fee violate the "80/20 Rule" of Internal Revenue Service Revenue Procedure 97-13.</p> <p>The Operator and the City shall mutually agree upon the amount and structure of the fixed service fee and variable fee and the pass-throughs and deductions associated therewith.</p>	<p>Our financial calculations and lump sum payment are based on monthly payment, which is typical of our industry. This has meant we could avoid the significant working capital and associated carrying costs that would have been necessary and the significant negative impact it would have had on our lump sum payment.</p> <p>The fee schedule we provide in our proposal is based on the Conway MacKenzie projections minus the PILOT, so as to create the ability for DWSD to make the PILOT.</p> <p>Our fee schedule includes the amortization of the upfront payment. We are confident our fee meets all 97-13 requirements.</p> <p>We suggest a variable fee component that includes a special escalation clause for those costs that the Operator cannot control such as electrical and natural gas unit rates (e.g. kWh and kW rates) and biosolids disposal unit costs (e.g. tipping fees or landfill availability). Included in our Fixed Fee will be an amount for such items and the variable component will be impacted by this escalation.</p> <p>KPI payment will also be a part of the variable component, as will flows and loadings adjustments.</p>
6	<p>COST SAVINGS TO SYSTEM: The Operator shall provide value to the System during the term of the Agreement through cost savings incremental to the savings identified in the 10-year DWSD Projections prepared by Conway MacKenzie as presented in the Fourth Amended Disclosure Statement dated May 5, 2014.</p>	<p>Veolia's proposal will provide value and efficiency throughout the term by driving to efficiencies necessary to fund the lump sum payment as well as improving performance of the utility and the cost effective implementation of the capital program. Veolia's proposal is based on a continuous improvement philosophy that will be implemented and measured using various benchmarks and tools such as Balanced Scorecard or something similar.</p>
7	<p>UPFRONT PAYMENT TO DWSD: Upon full execution of the Agreement and satisfaction of all conditions precedent set forth herein, the Operator shall make an upfront payment to DWSD for the benefit of the System in an amount to be mutually agreed upon by the Parties, which amount shall be used to fund incremental capital improvement projects for the benefit of retail customers or as otherwise determined by the City. Retail customers will receive the benefit from savings to the System from Operator's performance of the Agreement.</p>	<p>In Section 8 (Capital Plan) of our accompanying handbook, we make suggestions for the capital improvements that could benefit the retail customers.</p>

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.3 > Terms sheet assumptions and clarifications (cont.)

Item	Term	Veolia comment/assumption
8	<p>ANNUAL PILOT PAYMENTS FROM DWSD: During the term of the Agreement, the City will require DWSD to make annual payments in lieu of taxes (PILOT) from the wholesale customers of the System to the City as replacement for existing ownership benefits (comprising return on rate base with respect to the water portion of the System, in the approximate current annual amount of \$20.7 million, and payment for indirect benefits or services with respect to the sewer portion of the System, in the approximate current annual amount of \$5.5 million) paid by the wholesale customers to the benefit of the System's retail customers.</p>	<p>The \$26.2 million PILOT has been deducted from the O&M budget prior to calculating the savings amount that funds the Lump Sum payment. This creates the ability for DWSD to make the PILOT every year starting in year 1.</p>
9	<p>RATE SETTING: Subject to the limitations set forth herein and in a manner that otherwise complies with applicable law, the City shall set rates sufficient to meet its payment obligations to the Operator. The Operator may participate in rate-making discussions and provide non-binding recommendations, but shall not have decision-making authority with respect to rate-making. It is contemplated that, upon execution of the Agreement and at the request of the Operator, the Parties will request that the System be subject to the rate-making authority of MPSC.</p> <p>In any event, initial rate increases are expected not to exceed more than 4% of the System's annual revenue requirement for first 10 years except for certain exceptions specified in the Agreement or as otherwise indicated for years 3 and 4 as described in the 10-year DWSD Projections prepared by Conway MacKenzie as presented in the Fourth Amended Disclosure Statement dated May 5, 2014. The above referenced rate cap will be subject to (i) certain Force Majeure events, (ii) loss of greater than 2% of the non delinquent wholesale customers of the system as of the commencement of the Agreement to the extent not disclosed in the 10-year DWSD Projections prepared by Conway MacKenzie as presented in the Fourth Amended Disclosure Statement dated May 5, 2014, or (iii) to the extent that the State, the Environmental Protection Agency or the City makes any substantive regulatory changes during the term of the Agreement and the effect of such changes, individually or in the aggregate, is reasonably expected to have a material adverse effect on the costs of operating the System.</p>	<p>We have included a fee schedule that covers our requirements for the O&M costs and the amortization of the upfront payment, set at the Conway MacKenzie projections minus \$26.2m every year. Therefore, our fee requirements fit within the existing revenue model based on 4% annual revenue increases. It will be DWSD's responsibility to ensure that there are enough revenues to pay our fees.</p> <p>We recommend that the Parties do not request the System be subject to the rate-making authority of MPSC as it will add considerable cost in the preparation of rate case requests and approvals. We have not included costs for such preparation in our proposal.</p>

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.3 > Terms sheet assumptions and clarifications (cont.)

Item	Term	Veolia comment/assumption
10	<p>GENERAL OBLIGATIONS OF OPERATOR: Operator shall operate, manage, maintain and repair the System at all times on behalf of the City in accordance with applicable law and the detailed operating standards to be mutually agreed upon by the Parties pursuant to prudent management and utility practices and which are evaluated/adjusted on regular intervals, but in all events in a professional, efficient and economical manner and in accordance with the terms and provisions set forth in the Agreement. The Operator shall provide for and maintain security and safety for all System assets contemplated under the Agreement.</p> <p>The Operator shall prepare and submit to the City for approval, statements that detail Operator's major maintenance, repair and replacement programs on an annual basis. All aspects of customer care and billing shall be within the Operator's control (including metering, billing, collections and cash management). The Operator shall develop, with the advice and consent of the City, a communications, publicity and community relations program in order to keep the City and the System's customers informed about the operation and maintenance of the System.</p> <p>The Operator shall provide the necessary personnel, administrative staff and management, materials, supplies (including chemicals), replacement parts, equipment and such other items as are necessary to operate and maintain the System in the manner required under the Agreement, 24 hours per day, 7 days per week and 52 weeks per year. The Agreement shall include such other obligations of the Operator as are customary for an agreement of this type and nature.</p>	<p>Veolia's objective is to make DWSD one of the top performing utilities of similar size in the US. Our proposal is based on first establishing current standards of operation & maintenance within the scope of the System Assessment. Veolia would then propose standards consistent with best industry practices and identify gaps that need to be filled as identified in the Assessment and a plan and timeline to address. Once we reach these standards then Veolia would be committed, and obligated, to maintain them.</p> <p>Veolia has provided an initial draft of a Customer Outreach and Communication plan in our Handbook supplement. Our experience suggests this aspect to be absolutely critical to the success of the utility and we are fully committed to it.</p> <p>As noted previously, Veolia's Due Diligence and System Assessment would normally inventory all of the things noted as we would expect to return said inventory at the end of the contract period. Given the considerable costs associated it is important that we do this. However, we propose to focus on major cost items to avoid putting undue stress on the organization during the early months of the transition. We can agree with DWSD as to the extent we complete this inventory and timeliness.</p>
11	<p>COMPLIANCE WITH LAW: The Operator shall perform all services under the Agreement in compliance with all federal, state and local laws, regulations, permits and requirements, including without limitation: State and Federal constitutions, all laws, statutes, codes, ordinances, regulations, consent orders or agreements, permits or administrative or court orders issued by any governmental authority, including but not limited to the Safe Drinking Water Act, as amended (42 U.S.C. § 300f et seq.) (including, without limitation, the Opinion & Order Terminating Second Amended Consent Judgment and Closing the Case entered in United States of America v. City of Detroit, United States District Court - Eastern District of Michigan, Southern Division, Case No. 77-71100); the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. § 9601 et seq.); the Resource Conservation and Recovery Act, as amended (42 U.S.C. § 6901 et seq.); and the Clean Air Act (42 U.S.C. § 7401 et seq.). For purposes of this Term Sheet, any reference to "applicable laws" or any grammatical variation thereof shall mean and include the above-referenced standards.</p>	<p>Our proposal assumes adjustments to our obligations and fee would be made if amendments to the stated laws has an impact on our ability to comply or otherwise meet our obligations.</p>

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.3 > Terms sheet assumptions and clarifications (cont.)

Item	Term	Veolia comment/assumption
12	<p>GOVERNANCE: The Operator shall report directly to the Director of DWSD in the first instance, and ultimately to the Board of Water Commissioners of DWSD. The Director of DWSD and the Board of Water Commissioners of DWSD shall cooperate with the Operator to enable it to perform the Agreement free from unreasonable interference from such parties.</p>	<p>Veolia is supportive of this Governance structure and will provide suggestions to its most effective implementation as we enter into negotiations for the Operations and Maintenance Agreement.</p>
13	<p>CAPITAL IMPROVEMENTS: The City and the Operator shall mutually agree upon a capital plan to be implemented for the term of the Agreement. Such capital plan shall be based upon prudent management and utility practices, incorporate methods of adjustment to the plan over the term of the Agreement, and include appropriate City controls and approval requirements. The capital plan shall be designed to maximize, to the extent economically feasible based upon prudent management and utility practices, the Operator's ability to add value to the System for the benefit of its customers.</p> <p>The Agreement shall provide for certain Reserved Powers that shall permit the City to make unilateral decisions in certain areas although such decisions may require the City to compensate the Operator or may otherwise require an adjustment of the target costs for capital improvements and projected savings and key performance indicator measurements. The Operator shall not be unfairly penalized because of a City decision. The decisions within the City's sole discretion shall be agreed upon by the Parties with the attendant compensation to be paid, if any, but shall include, without limitation: approval of minimum standards for upgrade and operations of facilities; annual approval of the operating budget; actions and decisions to ensure compliance with necessary permits and approvals to operate the facilities; media communications about the Facilities; and all administrative directives of general application regarding procurement.</p>	<p>Veolia's proposal is based on it being responsible for implementation of the Capital program. While a small engineering department, included within the OGM organization, will oversee the overall program the Program Management will be CAPEX specific. This program management approach is consistent with industry best practices.</p> <p>Veolia proposes to implement capital projects using a variety of models incorporating best fit for purpose practices. In some cases we would follow a conventional design, bid, build approach. In others it may be design/build or even an alliance approach whereby target costs are established and we work as an integrated team with a partner to beat those target costs. By implementing the Capital program in this diversified way we will reduce costs as well as improve the performance of the capital delivery program.</p> <p>For the purposes of calculating the optional lump sum payment attributable to capital we have assumed 10% savings because of this implementation strategy. However, we anticipate actual savings will be greater.</p>
14	<p>KEY PERFORMANCE INDICATORS: The Agreement shall include a methodology for determining key performance indicators upon which the Operator may be compensated or charged (as applicable). Such methodology shall be based upon prudent management and utility practices, reviewed by the City and the Operator on regular, mutually agreeable intervals, and adjusted as mutually agreed upon by the Parties.</p>	<p>Veolia proposes a bonus system using KPI's to drive towards exceptional performance as well as to accommodate requests of the Board that may be outside the scope of the Agreement, but important to it and its customers. This is further explained later.</p>

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.3 > Terms sheet assumptions and clarifications (cont.)

Item	Term	Veolia comment/assumption
15	EMPLOYMENT: Employees of DWSD will be given priority consideration for employment with Operator but Operator shall not be required to hire DWSD employees. The Operator shall not be required to assume any accrued pension or any other employee benefit obligations.	Veolia fully supports this concept and believes that most of the positions we will need will be filled from the current staff complement. In order to achieve the saving levels that contribute to the lump sum payment we must reduce staff, but plan to carry excess people during the first few years to smooth the transition and ensure we do not lose institutional knowledge. Veolia proposes to guarantee the members of the senior management team and other critically important individuals (hopefully to be identified during due diligence) positions for a minimum of 1 year, perhaps with retention payments. This will ensure minimal disruption to the System and service levels to customers, but also allow us to build a team with the right people as well as the best balance of Veolia and existing personnel.
16	INSURANCE AND INDEMNITY: The Operator shall obtain, maintain and pay the entire premium for customary policies of insurance customarily obtained by operators of similar systems with commercially reasonable limits throughout the term of the Agreement, including without limitation: commercial general liability, public liability insurance, commercial automobile liability, worker's compensation, employer's liability and excess liability. Such policies of insurance (and the underlying certificates evidencing those policies) shall be subject to customary and commercially reasonable requirements typical for an agreement of the type and nature contemplated herein. The Agreement shall include customary indemnification provisions from the Operator, including without limitation: indemnification of the City for losses, claims and damages incurred by the City arising from (a) breach of the Agreement by Operator, (b) Operator's negligence or willful misconduct, (c) the Operator's transportation, storage, disposal or release of hazardous substances in violation of applicable law; and/or (d) any other customary grounds for indemnification.	We assume that property insurance would be obtained by DWSD directly or be within City held policies.
17	INSPECTION/ACCESS: The City and/or its authorized agents and representatives from the governing regulatory agency reserve the right to visit or inspect the System at any time The Operator shall maintain all records of operating data and information relevant to the Systems, including accounting and financial records, in a commercially reasonable manner and provide the City access to all such records upon request.	This approach is consistent with the transparency that we expect and support. It enhances communication and understanding of the needs of the System.

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.3 > Terms sheet assumptions and clarifications (cont.)

Item	Term	Veolia comment/assumption
18	<p>ASSIGNMENT: This Term Sheet (and any rights and/or obligations hereunder) shall not be assigned by the Operator to any other third-party (including without limitation, any affiliate, subsidiary, or other entity controlling, controlled by, under common control with, Operator) without the consent of the City which consent shall not be unreasonably withheld, conditioned or delayed.</p> <p>The Agreement shall provide customary restrictions with respect to assignment and change of control of the Operator.</p>	
19	<p>FORCE MAJEURE: The obligations of each Party to perform under the Agreement shall be subject to the occurrence of customary force majeure events, including without limitation: earthquake, fire, epidemic, acts of God, war, national emergency, civil disturbance or disobedience, riot, sabotage, terrorism, restraint by court order or order of public authority, and similar occurrences beyond the reasonable control of the Party in question (financial inability excepted), that make compliance with any of its material obligations under the Agreement in a timely manner impossible.</p>	

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.3 > Terms sheet assumptions and clarifications (cont.)

Item	Term	Veolia comment/assumption
20	<p>REPRESENTATIONS / WARRANTIES: The Operator shall give customary representations and warranties with respect to matters typically included in agreements similar to the Agreement, including without limitation:</p> <p>The Operator is an entity duly organized and validly existing and in good standing in a U.S. jurisdiction and is qualified and authorized to do business in the State of Michigan.</p> <p>The Operator has full power and authority to enter into the Agreement and to perform its duties and obligations thereunder. The Agreement will have been duly authorized, executed and delivered by the Operator and the authorization, execution, delivery and performance of the Agreement by the Operator will not violate any law, judgment, order, ruling or regulation applicable to the Operator and will not constitute a breach of or default under any agreement or instrument by which the Operator is bound.</p> <p>The Operator has or holds, or will have or hold as of the commencement of the Agreement, and will continue to have or hold throughout the term of the Agreement, all approvals, licenses, permits, and certifications necessary to operate, manage, maintain and repair the System in accordance with the terms and provisions of the Agreement, and competent and experienced personnel on its staff who have direct experience in operating, managing, maintaining and repairing water systems and wastewater collection systems similar in nature and character to the System.</p> <p>No litigation is pending or threatened (or reasonably foreseeable) against the Operator which would impair its ability to perform its duties and obligations under the Agreement.</p> <p>At all times during the term of the Agreement, after the commencement thereof, the Operator shall keep the System and all components thereof free from any and all liens and encumbrances arising out of or in connection with its operation, management, maintenance and repair of the System or any acts, omissions or debts of the Operator, its affiliates or subsidiaries, or any of its subcontractors.</p>	<p>With respect to approvals, licenses, permits, and certifications Veolia understands this to mean that it will hold those permits it need and DWSD will hold the permits related to its ownership of the System.</p>

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.3 > Terms sheet assumptions and clarifications (cont.)

Item	Term	Veolia comment/assumption
21	<p>DEFAULT AND TERMINATION: The Agreement shall be subject to customary default and termination provisions, which shall include without limitation: (a) failure of the Operator to perform its obligations pursuant to the terms and conditions of the Agreement; (b) breach of any representations and/or warranties of Operator which are incapable of cure; (c) commencement of any bankruptcy, insolvency, liquidation and/or similar proceeding against the Operator, the consent by the Operator of and/or taking possession by a receiver, liquidator, assignee, trustee and/or custodian of the Operator and/or any substantial part of its assets, the making by Operator of any assignment for the benefit of creditors, and/or failure by the Operator to pay its debts as they come due; and (d) failure by the Operator to make any payment required to be made pursuant to the Agreement.</p> <p>The Agreement shall be subject to a customary termination payment due and payable to Operator upon termination of the Agreement prior to the expiration of the stated term.</p>	
22	<p>SURVIVAL: Sections entitled "Assignment," "Termination," and "Non-Exclusivity" shall survive the termination of this Term Sheet and shall be legally binding upon and enforceable against the Parties hereto.</p>	
23	<p>DISPUTE RESOLUTION: The Agreement shall provide for a customary dispute resolution process agreeable to the Parties.</p>	
24	<p>CONDITIONS PRECEDENT: Execution of the Agreement shall be subject to customary conditions precedent being satisfied, waived on agreement by the Parties, or transferred to the Agreement as a condition precedent therein, including without limitation: (a) any approvals that may be required from applicable regulatory bodies on terms satisfactory to the Parties (including, without limitation, all proper approvals of the Michigan Department of Environmental Quality); (b) approval by the Emergency Manager of the City in accordance with Emergency Manager Order No. 5; and (c) approval through the applicable Bankruptcy court order of the City's plan of adjustment that contemplates the transaction contemplated in this Term Sheet.</p>	Veolia suggests adding the internal approvals necessary by the Operator.
25	<p>WRITTEN AGREEMENT: [THIS IS A NON-BINDING TERM SHEET. NO AGREEMENT, ORAL OR WRITTEN, REGARDING OR RELATING TO ANY OF THE MATTERS COVERED BY THIS TERM SHEET HAS BEEN ENTERED INTO BETWEEN THE PARTIES. NO AGREEMENT REGARDING OR RELATING TO ANY OF THE MATTERS COVERED BY THIS TERM SHEET WILL BE BINDING ON EITHER PARTY UNTIL THE PARTIES HAVE EXECUTED AND DELIVERED A DEFINITIVE WRITTEN AGREEMENT WITH RESPECT TO SUCH MATTERS.]</p>	

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.3 > Terms sheet assumptions and clarifications (cont.)

Item	Term	Veolia comment/assumption
26	<p>TERMINATION: The Parties agree that the Termination Date for this Term Sheet will be the earlier of: (a) the date on which the Agreement is fully executed; (b) [August 1, 2014]; (c) the date as of which the City notifies the Operator in writing of its desire to terminate the Term Sheet for the reasons set forth in the section below entitled "Non-Exclusivity"; and (c) the date as of which the Parties otherwise agree to terminate this Term Sheet. This Term Sheet may also be extended by agreement of the Parties.</p>	
	<p>NON-EXCLUSIVITY: The Operator acknowledges and agrees that the City is subject to a court mandated mediation order with respect to the creation of a regional water and sewer authority for the System and is otherwise engaged in bankruptcy proceedings. In consideration of the foregoing, the Operator agrees that the City shall be free at any time prior to execution of the Agreement to negotiate and engage in discussions regarding other possible understandings and agreements related to the System, including without limitation a regional authority or an agreement substantially similar to the Agreement with a third-party operator other than the Operator, if so directed by the <i>Emergency Manager</i> and the City shall have the right to terminate this Term Sheet for the purpose of pursuing such a transaction.</p>	The additional words suggest that this procurement process does not contemplate an auction and that accepting an operator other than the Operator would be an exceptional circumstance.
27	<p>To the extent that the City terminates the Term Sheet and either enters into a transaction substantially similar to the Agreement with a third-party operator other than the Operator or enters into a transaction involving a regional authority, within 6 months after such termination, the successful proposer shall be entitled to a break-up fee covering its reasonable, actual out-of-pocket pursuit costs incurred on and after the date the Operator is selected as the successful bidder, not to exceed an amount to be agreed upon. In the event such break-up fee is payable by reasons of the City terminating this Term Sheet and entering into a transaction substantially similar to the Agreement with a third-party operator other than the Operator, such break-up fee shall be payable exclusively from the upfront payment received from such third-party operator.</p>	We have not yet calculated our anticipated out-of-pocket expenses that would be eligible for this break-up fee.

1. CLOSE QUICKLY ON TERMS THAT DELIVER MAXIMUM LONG-TERM VALUE TO SOUTHEAST MICHIGAN

1.3 > Terms sheet assumptions and clarifications (cont.)

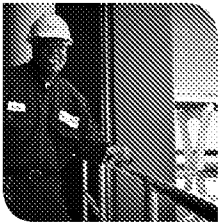
Item	Term	Veolia comment/assumption
	<p>BID COMPONENTS: Each bid submitted pursuant to this Term Sheet shall include, but not be limited to, the following components:</p> <p>The amount and timing of the proposed fixed service fee and variable fee payable to Operator, including the proposed pass-throughs and deductions (as set forth in "Compensation to Operator" above). In no event can the variable fee violate the "80 /20 Rule" of Internal Revenue Service Revenue Procedure 97-13.</p> <p>The amount of the proposed average annual cost savings Operator can provide the System during the term of the Agreement incremental to the savings identified in the 10-year DWSD Projections prepared by Conway MacKenzie as presented in the Fourth Amended Disclosure Statement dated May 5, 2014 (including the specific amount of proposed savings allocable to the retail customers of the System) (as set forth in "Cost Savings to System" above).</p>	We have followed this format and are confident we have included all of the information requested as well as clarifications explaining our approach.
28	<p>The amount of the proposed upfront payment to DWSD (as set forth in "Upfront Payment to DWSD" above).</p> <p>Details of the proposed plan for capital improvements to be implemented during the term of the Agreement, including the methods of adjustment and City controls/approval requirements (as set forth in "Capital Improvements" above).</p> <p>Details of the proposed methodology for determining key performance indicators, including the methods of adjustment, City controls/approval requirements and monetary incentives associated therewith (as set forth in "Key Performance Indicators" above).</p> <p>An employment plan setting forth the Operator's proposed pay and benefits plan for the System (as set forth in "Employment" above).</p> <p>Any comments to the Term Sheet and/or deviations or additions to the Term Sheet which would add significant value to the transaction contemplated herein.</p>	
29	<p>CONFIDENTIALITY: The Parties have entered into a Confidentiality Agreement dated April [], 2014 ("NDA"). The Parties agree that all discussions and information exchanged between the Parties in connection with this Term Sheet (and including the contents of the Term Sheet) shall constitute "Confidential Information" for the purposes of the NDA and shall be held in confidence in accordance with the terms of the NDA.</p>	

2. TRANSITION OPERATIONAL RISK AND HUNDREDS OF EMPLOYEES WITHOUT DISRUPTION OF SERVICE

2.1 > Transitioning to a new partnership

#1

in transitions - no other company in the U.S. has transitioned more employees to contract O&M than Veolia.



Veolia has transitioned all aspects of utility operations including customer service, customer billing and collections, O&M of above and below ground facilities, and capital planning and execution. Veolia's approach is based on experience, "lessons learned," and state-of-the-art change management practices. Veolia's transition planning has already begun. This is our normal approach because we have to ensure people are in place and resources dedicated in case we are selected to partner with DWSD. Once selection is official we will quickly mobilize a small team to take our initial and somewhat generic planning and develop the detailed and comprehensive plan for DWSD.

The transition includes three uniquely resourced and dedicated teams:

- **Mark Sanderson, Development Team Leader** will lead our negotiations and due diligence team. This team will be our first group to become somewhat expert in the system and all of the key tasks that must be accomplished and areas of concern that must be addressed as we move to be responsible for the system. While the focus of this group is to complete all the work necessary to close the transaction they liaise with the other two teams to transfer knowledge and support their activities as their primary responsibilities are accomplished.
- **David Gadis, General Manager** (nominated) will be immediately responsible to take care of the day-to-day operation and management of the system pursuant to our obligations in the newly signed agreement. He will ensure that continuity of operations and customer service is maintained. An important part of his initial focus will be on the senior management team and through them on the whole DWSD team.
- **Robert Nicholas, Chief Transformation Officer** (nominated) is assigned to oversee

the transition to the new DWSD partnership. Mr. Nicholas will lead the transition from June 1st through such time as it is complete, i.e. he will work himself and his team out of a job. He will then seamlessly transition into the role of Chief Transformation officer where he will be responsible for the implementation of the efficiency and performance objectives we set out for DWSD.

In Section 3 of Veolia's Handbook provides an initial transition plan that highlights many of the processes, procedures and tasks we would build into the DWSD specific and detailed plan in early June.

Many of the people involved in Milwaukee, Indianapolis and other large transitions will be involved in DWSD.

Veolia's transition plan has multiple parts:

Fully Resourced. Mr. Nicholas' transition team will be uniquely and fully resourced so that it has the capabilities it needs to complete all of the tasks necessary. Veolia is uniquely positioned to be able to resource the closing, transition and on-going operation teams such that each has the resources it needs when it needs them.

Team continuity. Veolia's transition team is designed to include members of the current DWSD management team. This continuity provides significant benefits to all parties in that approaches can be tested and adjusted to take into account the significant experience that DWSD has gone, and still is going, through. This unique situation and experience affords as an opportunity to build on current practices.

Resourcing from Team to Team. Veolia's due diligence team will become members of the Transition Team to ensure continuity and reconciliation of the O&M plan with the current employees to capture institutional knowledge and ensure assumptions we have

2. TRANSITION OPERATIONAL RISK AND HUNDREDS OF EMPLOYEES WITHOUT DISRUPTION OF SERVICE

2.1 > Transitioning to a new partnership (cont.)

made in our due diligence period align with reality.

Observation. Veolia teams will shadow and audit existing operations during transition

Interaction. We'll listen to current employees and match existing capabilities and career interests to new positions and supplement with training that may be necessary. Critical to our past success has been having empathy with the difficult change personnel are going through and implementing the necessary communication and interaction to bring stress levels down.

Collaboration. We'll further develop working relationships with all parties, including District officials, regulatory officials and local vendors (including S/W/MBEs).

The transition plan will flow into the Transformation Departments activities

and responsibilities. But, before the Transformation can begin we must first establish the starting point – the baselines.

In order to establish baselines Veolia would conduct a System Assessment with the following three main elements:

- Operations and support function performance standards as compared to industry benchmarks.
- Asset Condition survey to determine the baseline condition of the assets so that later Veolia's performance can be measured against this starting point.
- Asset, tools, and equipment inventory to determine the count and valuation of these things as a baseline to ensure Veolia cares for DWSD assets and returns a similar inventory at end of the contract.

2.2 > Human resources and labor relations

Veolia will be prepared to address the key employee issues:

- Employees will wonder whether everyone will be transferred and if there's a chance of not having a job. This is important to both the employee and to the entity that needs to budget accordingly.
- Retirement benefit questions are sure to arise, and having answers to those questions is vital.
- Employees represented in a Collective Bargaining Agreement will have special requirements that must be addressed legally. Addressing these promptly is best for the employees and organizations involved.

With regard to union relations, Veolia enjoys excellent labor relations throughout our project sites in North America, and our firm is committed to maintaining an ongoing,

positive working relationship with represented employees and union representatives.

In total, Veolia companies in North America currently have some 34 collective bargaining agreements (CBAs), with 568 union-represented personnel at our various project sites in Canada and the U.S. Some 97 percent of labor grievances are resolved without arbitration and there has never been a work stoppage in the history of our company. Cooperation by represented and non-represented personnel remains high because of a corporate commitment to pay competitive, market-rate wages, salaries and benefits, and also because of the company's strong and visible commitment to employee training and occupational health and safety.

One of the first steps in transitioning existing personnel into the Veolia organization requires

2. TRANSITION OPERATIONAL RISK AND HUNDREDS OF EMPLOYEES WITHOUT DISRUPTION OF SERVICE

2.2 > Human resources and labor relations (cont.)

meetings to discuss employee job and benefit concerns. The company's objective would be to establish realistic expectations and begin the process of developing a working relationship of mutual respect and trust. Steps typically include meetings with union leadership, incumbent management, and

face-to-face meetings with all personnel, in order to establish lines of communication, seek employee feedback, and begin an employee transition process that will minimize disruptions and ensure as seamless a transition as possible for the client.

Veolia's approach to managing the utility focus on team building to transfer knowledge and best practices to your staff, implementing quick and long-term fixes that build morale and achieve DWSD service goals



3.1 > Managing the utility

DWSD will require the highest caliber of professionals, a leadership team that is robust and specialized, with distinct teams focused on day-to-day governance and, in parallel, on reinventing the utility in line with industry best practices. Veolia's proposed team boasts of some of the best and brightest managers and subject matter experts in the industry, with experience guiding and reinventing some of the world's largest public water and wastewater utilities. In addition, this team will have access to Veolia's pool of global resources starting with the technical and management resources noted on page 33.

Veolia recognizes and appreciates the talented members of DWSD's senior management team that we met on May 8, 2014 at the manager's meeting hosted by Director Sue McCormick. It is our intent to give each of these managers first consideration for positions within the new organization while recognizing the need to bring in Veolia talent too. To ensure a smooth transition and give these managers the best opportunity

with Veolia we propose to guarantee them employment for a minimum of 1 year. We will communicate this with them as soon as we are allowed to so that they know they have at least that assurance and we can move forward with confidence knowing who our initial team members will be. Our experience would suggest that a good percentage of them will be part of the final organization and the successes conveyed to us at the management meeting confirm this likely to be the case here.

A team with multiple specialties is proposed because of the total effort required to complete this transaction. Expertise is needed to continue day-to-day management of the utility, to handle the transition from public to private management, and then to help implement the innovations and changes to cut costs and improve efficiency going forward. Our team will also include financial experts to contribute the OPEX and CAPEX modeling required to structure and execute a marketable transaction.

3. LEAD THE UTILITY WITH TOP MANAGERS WHO GET RESULTS WHILE BUILDING A WINNING CULTURE

3.2 > Governance and communication

As DWSD's O&M operator, Veolia must achieve a delicate balance among the needs of DWSD and a customer base made up of City, suburban and wholesale customers. In addition, there are important stakeholders in the business community that provide services to DWSD or depend on DWSD for the operation of their businesses. This dictates that the team members bring a breadth and depth of experience from a broad range of projects that have included the same mix of challenges faced by Detroit. Veolia is one of the few firms that can bring this skill set and experience.

In our experience around the world, we have universally found that public perception of success in the municipal utility business, assuming of course you first perform well,

comes from providing transparent processes and diligent two-way communication with customers, stakeholders and the community in general. Our approach is designed to do just that and includes activities to reach out to the community using various channels; deliver messaging that is clear about what we are trying to accomplish; and to get feedback by engaging in open and honest dialogue. Our approach often includes advisory boards, similar to those already in place, for the community to be engaged directly with board members and senior management. There are also plans for multiple channels of communication with employees, small vendors and contractors, retail customers in neighborhoods and large industrial customers.

3.3 > Veolia project team

David Gadis currently serves as Veolia's executive representative on the Steering Committee of the DeKalb County Department of Watershed Management innovative, new Peer Performance Solutions project.

Veolia will bring to the project a team of highly seasoned senior managers chosen for their experience that is particularly relevant to Detroit. These include personnel with experience in managing similar-size utilities from Indianapolis, Milwaukee, NYC and Pittsburgh in the U.S.; Berlin, Paris Suburbs, and Budapest in Europe; as well as senior-level experience managing utilities in Michigan and the U.S. for Veolia. The capital team has overseen the completion of several billions of dollars of capital projects in Australia, Scotland and Canada. Teams will be uniquely resourced with flexibility to move into project roles as the project progresses, sustaining project knowledge and insights.

Veolia's organization chart on the following pages illustrates the reporting relationship, areas of responsibility, and key personnel proposed for DWSD. Veolia's key personnel will work closely with existing staff and DWSD executive team management to align the

organization to the most optimal structure.

David Gadis -- General Manager

Mr. Gadis is an experienced utility manager, having served as the President of the Indianapolis, Indiana, water operations, an O&M partnership that ranked as the largest water system O&M contract in the U.S. Under that contract, he united union and non-union staff and MBE/WBE partners toward a common goal of enhancing the levels of service and quality to the Indianapolis community. This resulted in a distinct set of accomplishments, where Mr. Gadis' leadership:

- > Held water rates steady for five years, as requested by the mayor, by permanent elimination of costs.
- > Improved customer service, technical procedures, and water quality.
- > Improved revenue by implementing a meter assessment and change-out program.

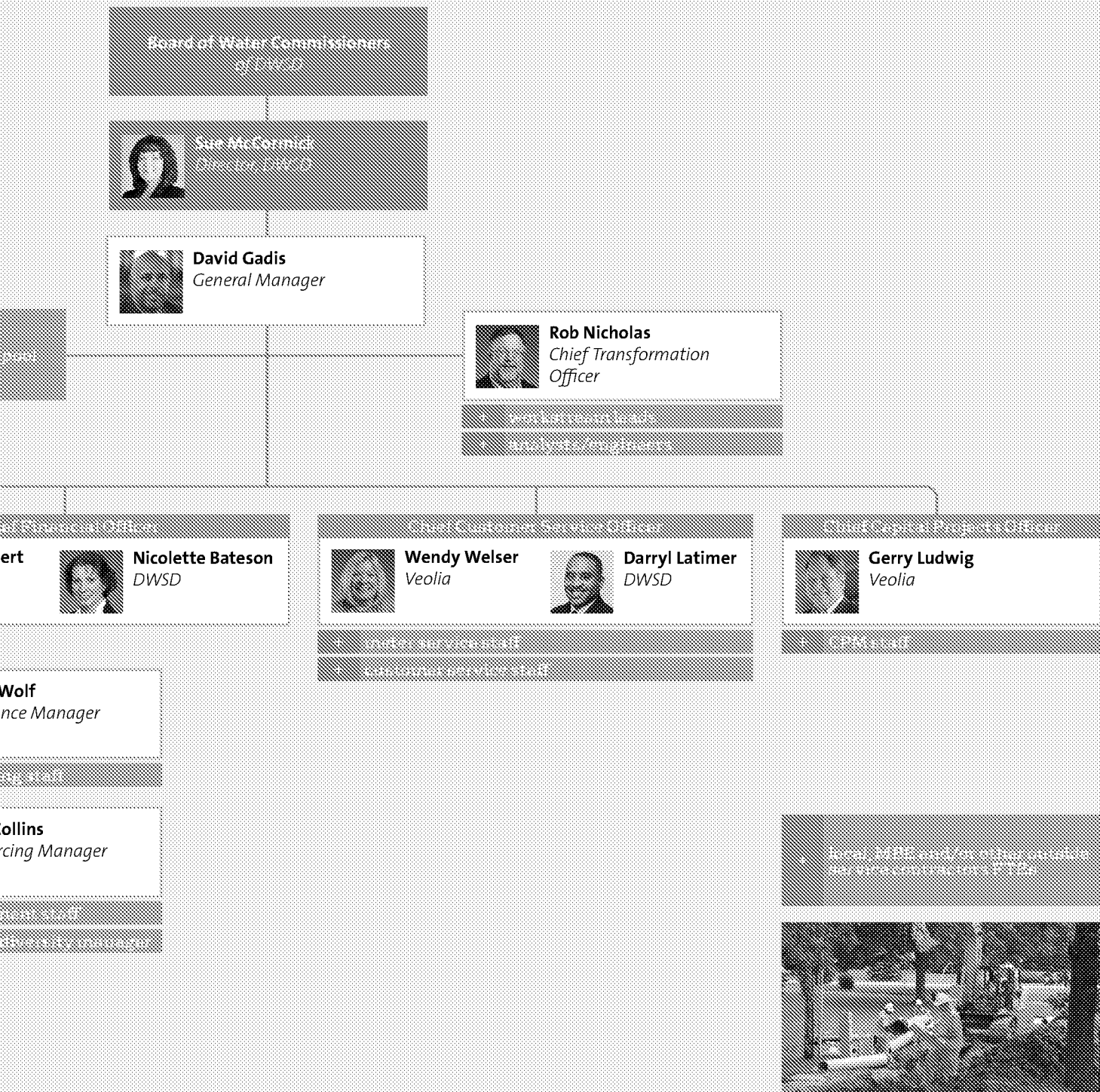
Transformation Organization

Future-state team structure will align with DWSD vision for optimal organization

Existing DWSD executive team staff are shown in positions where they would work collaboratively with Veolia staff during transition or assume continued responsibilities.

+ administrative personnel





➤ As President of Indianapolis Water, Veolia senior executive **David Gadis** kept 92% of the dollars spent (\$250 M) in the local economy and maintained better than 35% MBE/WBE participation over the nine-year life of the contract.

3. LEAD THE UTILITY WITH TOP MANAGERS WHO GET RESULTS WHILE BUILDING A WINNING CULTURE

3.3 > Veolia project team

David Gadis currently serves as Veolia's executive representative on the Steering Committee of the DeKalb County Department of Watershed Management innovative, new Peer Performance Solutions project.

- > Repaired or replaced damaged or non-operative hydrants within 15 days vs 45-60 days.
- > Kept 92% of the dollars spent (\$250 M) in the local economy and maintained better than 35% MBE/WBE participation over the nine-year life of the contract.
- > Established changes to achieve quality, performance and cost savings goals.
- > Delivered a cumulative \$83.1 million in cost savings when the contract was completed in 2011, with the transition of services to the new water/wastewater utilities owner in Indianapolis.



SCOTT ROYER: Chief Operations Officer
EXPERTISE: General management, large wastewater operations and large project transitions
BIG REFERENCE PROJECTS: Milwaukee; New Orleans, LA; Northeast Ohio Regional Sewer District; Battle Creek, MI



WENDY WELSER: Chief Customer Service Officer
EXPERTISE: Call center and billing performance management
BIG REFERENCE PROJECTS: Pittsburgh Water and Sewer Authority; Buffalo Water, New York City; Former Customer Service Manager of Ann Arbor, Michigan



JOEY TOLBERT: Chief Financial Officer
EXPERTISE: Municipal finance
BIG REFERENCE PROJECTS: CFO for Pittsburgh Water and Sewer Authority; Financial manager for Veolia corporate business development group



SERGE SASSUS: DWSD Water Manager
EXPERTISE: Management of very large water O&M
BIG REFERENCE PROJECTS: Lyon, France (Second largest drinking water network in France in terms of customers served)



PAUL NORAN: DWSD Field/Central Services Manager
EXPERTISE: O&M field services for water and wastewater
BIG REFERENCE PROJECTS: Underground Asset Program Manager at Milwaukee; transition and O&M leader at Indianapolis



ANGELA BRODEUR: DWSD Compliance/Lab Manager
EXPERTISE: O&M laboratories
BIG REFERENCE PROJECTS: Laboratory Manager at Woonsocket, RI; Regional Laboratory Coordinator for 40+ water/wastewater operations, including Wilmington, DE, and Tampa Bay Water



CARLA BENNETT: Chief Human Resources Officer
EXPERTISE: Human resources, legal
BIG REFERENCE PROJECTS: Veolia Human Resources Director for municipal/commercial business in North America



SHANE CALVERT: Chief Env. Health, Safety & Security Officer
EXPERTISE: O&M safety
BIG REFERENCE PROJECTS: Safety & Compliance Manager for Indianapolis; Winnipeg; Milwaukee

NAME: DWSD General Counsel
EXPERTISE: Utility legal
BIG REFERENCE PROJECTS: Various projects



DAVID GADIS: General Manager
EXPERTISE: O&M and capital program management
BIG REFERENCE PROJECTS: Former President of Indianapolis Water; Team leader for change management for New York City; Atlanta metro (DeKalb County); MBE-WBE initiative leader



ROB NICHOLAS: Chief Transformation Officer
EXPERTISE: O&M and utility performance transformation
BIG REFERENCE PROJECTS: Pittsburgh Water and Sewer Authority; New York City; Tampa Bay Water



KEAVIN NELSON, P.E.: Executive Vice President
EXPERTISE: General management and capital program management
BIG REFERENCE PROJECTS: New York City; Buffalo, NY; Pittsburgh, PA; Tampa Bay Water, FL; Wilmington, DE



GERRY LUDWIG: Chief Capital Planning Officer
EXPERTISE: Municipal utility capital planning
BIG REFERENCE PROJECTS: Asset manager at Pittsburgh Water and Sewer Authority; Corporate Capital Program Manager with Veolia in North America



ART FAGERSTROM: DWSD Wastewater Manager
EXPERTISE: Wastewater O&M
BIG REFERENCE PROJECTS: Operations leader at New York City and Boston; Operations manager at Wilmington, DE



BRIAN COONAN: DWSD Maintenance Manager
EXPERTISE: O&M asset management
BIG REFERENCE PROJECTS: Milwaukee; Jackson County, MI



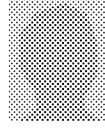
PAUL WHITMORE: Chief Community Outreach Officer
EXPERTISE: O&M community outreach
BIG REFERENCE PROJECTS: Indianapolis; New York City; Atlanta metro (DeKalb County)



BILL WOLF: DWSD Finance Manager
EXPERTISE: Utility finance
BIG REFERENCE PROJECTS: Served as Financial Manager for Indianapolis; Corporate Financial Manager responsible for more than 250 clients across North America



ED COLLINS: DWSD Sourcing Manager
EXPERTISE: Procurement, sourcing
BIG REFERENCE PROJECTS: Procurement/MBE-WBE manager at Indianapolis; Procurement leader for New York City; Winnipeg; DC Water; Los Angeles Department of Water & Power



NAME: Chief Information Officer
EXPERTISE: O&M information technology
BIG REFERENCE PROJECTS: Various projects

3. LEAD THE UTILITY WITH TOP MANAGERS WHO GET RESULTS WHILE BUILDING A WINNING CULTURE

3.4 > Veolia corporate support resources

The personnel shown below are representative of the “big project” expertise that Veolia can bring to support each aspect of closing, transitioning and operating DWSD.

This level of expertise (senior utility managers and technical specialists) will be available as needed by our General Manager and his team throughout the term of the contract.

Veolia leverages resource continuity.

Development

Operations

Transition

O&M



JOHN WOOD: Vice President, Veolia North America and project principal

EXPERTISE: General management and transitions

BIG REFERENCE PROJECTS: Milwaukee, Indianapolis, and Winnipeg; Transition leader and corporate principal



LEO PRUSI, P.E.: Area Manager for Veolia in central North America

EXPERTISE: O&M management

BIG REFERENCE PROJECTS: Milwaukee, New Orleans, Sioux City



JASON SALGO: Chief Financial Officer

EXPERTISE: Finance, acquisitions, concessions

BIG REFERENCE PROJECTS: Corporate financial leader for North American business; Philadelphia Green Steam Project; Medical Area Total Energy Plant, Boston



CAROL ROGERS-JACK: Business Support Manager

EXPERTISE: Finance and business operations management

BIG REFERENCE PROJECT: Tampa Bay Water, FL; U.S. Virgin Islands; Fulton County, GA



KEITH OLDEUWTEL: Vice President of Veolia's Technical and Performance Group

EXPERTISE: General management and project operations

BIG REFERENCE PROJECTS: Former General Manager of Grand Rapids District Energy; Director of Operations for 640 person co



KEITH SHARLOG: Vice President

EXPERTISE: Legal

BIG REFERENCE PROJECTS: New York City; Buffalo, NY; Pittsburgh; Chicago; Milwaukee



ROD NAYLOR: General Manager of Veolia's ongoing performance consulting program with New York City

EXPERTISE: Capital programs, ops-performance consulting

BIG REFERENCE PROJECTS: New York City; Gold Coast Desalination Project and South East Queensland Water, Australia



TIM MUIRHEAD, P.E.: Vice President

EXPERTISE: Biosolids engineering/management and capital programs management

BIG REFERENCE PROJECTS: New York City; Milwaukee; New Orleans; Wilmington, DE; Chicago



CAROL SYMES: Director of Structuring

EXPERTISE: Water and wastewater O&M management

BIG REFERENCE PROJECTS: Pittsburgh Water and Sewer Authority; Winnipeg



ANDY ROUSE: Director of Structuring

EXPERTISE: Water and wastewater O&M management

BIG REFERENCE PROJECTS: Pittsburgh Water and Sewer Authority; Los Angeles Department of Water & Power; Abu Dhabi, UAE; Adelaide, Australia



LATRICIA HILL-HANDLER: Supplier Diversity Manager

EXPERTISE: Procurement and M/WBE outreach

BIG REFERENCE PROJECTS: New Orleans; DeKalb County, GA; Previously MBE/WBE leader of Indianapolis' school system



MIKE SCHNACK: Human Resources and Labor Relations Manager

EXPERTISE: Utility human resources and labor relations

BIG REFERENCE PROJECTS: New York City; Pittsburgh



RYAN JOHNSON: Director of Asset Management

EXPERTISE: Asset management and capital programs

BIG REFERENCE PROJECTS: Milwaukee; DC Water; Richmond, CA;



BILL FAHEY: Chief Technical Officer

EXPERTISE: O&M technology, asset management

BIG REFERENCE PROJECTS: New York City; Milwaukee; New London, CT; Wilmington, DE



SHERRAE DAVIS: Director of Asset Management

EXPERTISE: Capital planning, asset management

BIG REFERENCE PROJECTS: Winnipeg; Indianapolis



DENNY TULENSEN: Vice President of Structuring

EXPERTISE: Water and wastewater O&M management

BIG REFERENCE PROJECTS: New York City; Pittsburgh Water and Sewer Authority; Winnipeg



ANTOINE BOO: Sr. Technical Manager

EXPERTISE: Water treatment and distribution

BIG REFERENCE PROJECTS: New York City; Indianapolis; Paris, France; Moscow, Russia



PATRICK SCHULTZ, PHD: Vice President of Operational Transformation

EXPERTISE: Utility performance consulting

BIG REFERENCE PROJECTS: New York City



LARRY KOCH: Director of Capital Program Management

EXPERTISE: Capital program management

BIG REFERENCE PROJECTS: Milwaukee; New Orleans; Pittsburgh; Atlanta



NEAL ABERCROMBIE: Above-ground Asset Management Expert

EXPERTISE: Asset management; capital planning

BIG REFERENCE PROJECTS: Winnipeg; Scottish Water, Scotland

4. OPERATE THE UTILITY WHILE DRIVING CONTINUOUS IMPROVEMENT IN EFFICIENCY AND QUALITY

4.1 > Operations plan

Veolia will build a team with DWSD and the existing personnel to establish a stronger culture of performance, communication and accountability. Veolia will identify leaders among the existing personnel and create new leaders through training and career advancement. These individuals will be brought through the transition, charged with high expectations, and supported as part of Veolia's ambition to turn DWSD into the water industry's flagship operation.

Through four measures, Veolia will build a stronger team, spur recognition of DWSD as a world-class utility and establish a culture of operational excellence:

- > Combining leadership
- > Creating Action Teams
- > Increasing the number and level of meaningful training programs

Combining Leadership. Long ago, DWSD established itself as a premier utility in the nation for its performance, reliability, cost-effectiveness and environmental stewardship. Similarly, 160 years ago Veolia began establishing itself as the private-sector industry leader, with standards of compliance, safety and technical capabilities that surpass all others. Consistent with DWSD's management philosophy and history of successes, Veolia's proposal is aimed at enhancing the delivery of "best practices" that

match and amplify DWSD's ongoing mission to be "best-in-class."

Action Teams Established. We will develop specific teams comprising of employees, MMSD staff and Veolia managers who will focus on areas such as Asset Management, Wet Weather Management, Operations, Safety & Security, S/W/MBE utilization and community involvement and public education. Their purpose is to develop mutual understanding among parties, get objectives aligned and properly focus resources where they should be applied. These teams will spur recommendations that will be presented to management (yours and ours) for consideration and adoption.

Expanded Training. Working with you, we will immediately begin implementing a training needs survey to determine priorities for safety, technical, and human resources training. Incorporating what we identify at that time regarding individuals' interests and career aspirations, we will introduce a new level of training programs specifically focusing on operational excellence, asset management, safety and career advancement.

As appropriate, supplemental training will be provided by EHS&S professionals, technical subject matter experts, universities, junior colleges, vocational schools, professional trade organizations, state agencies, and others.

Veolia will bring the managerial, operational and technical capability to elevate the performance of the DWSD across the range of utility functions and services, from O&M of water and sewer systems, to customer service, safety, security, environmental stewardship, business operations, transition and management of human resources, capital improvements, cost-saving technology, licenses and legal compliance.

Veolia's performance and reliability has earned many decades of continuous client confidence

40+ years	1 (Burlingame, CA)
30–40 years	5 projects
20–30 years	43 projects
10–20 years	60 projects

4. OPERATE THE UTILITY WHILE DRIVING CONTINUOUS IMPROVEMENT IN EFFICIENCY AND QUALITY

4.1 > Operations plan (cont.)

Water and Wastewater Operations

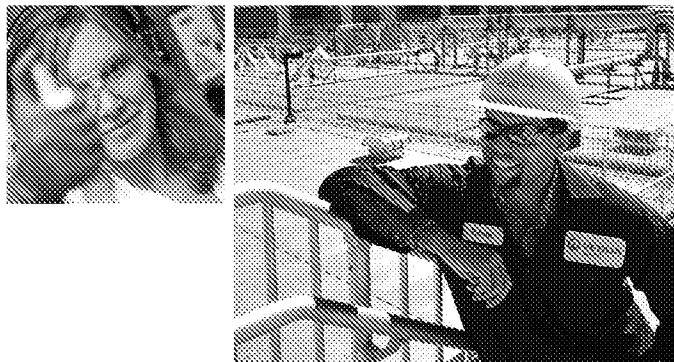
Field services responsibilities include 3,470 miles of water lines and 3,433 miles of wastewater conveyance and associated meters, pump stations, and stormwater control measures. A recent achievement for DWSD was to reduce combined sewer overflows to 500 MG per year – this was a 20 year low. Programs are underway to reduce stormwater and it is understood that there exists a significant inflow and infiltration (I&I) issue within the collection system – parts of which were constructed in the 1800s. Implementation of a GIS-based asset management program with an integrated CMMS work order management capability will allow supervisors to schedule field crews and issue electronic work orders for tasks such as pipe cleaning, CCTV condition assessment, building inspections, and all sewer system evaluation services (SSES) that are integral to the discovery of inflow and infiltration sources. Armed with this detailed spatial information and a history of backups, blockages, and SSOs, a capital program can be strategized and the most offending sources and cross-connections to storm sewers can be eliminated.

Treatment facilities include five water plants and one wastewater treatment plant.

The operations at these facilities will be managed by Veolia's Process Control Management Plans, incorporating systems in place these plans will provide the analytical framework and methodology for continued compliance and process efficiency enhancements. Topics include all aspects of treatment operations, including, for example, wastewater treatment control parameters—such as for primary sludge blanket levels, sludge pumping rates, dissolved oxygen levels, sludge age, wasting rates, digester volatile solids reduction targets, polymer consumption, dewatered cake solids content, scrubber pH, etc.

Veolia would implement our standard process control, monitoring and QA/QC procedures with input from existing staff so that all plans are tailored to the DWSD facilities, while leveraging existing procedures with the result being the best approach for the situation.

Safety and security are paramount to the community, customers and personnel. Veolia has the best safety record in the industry. We implement protocols and programs to ensure water quality, review lab results and monitor

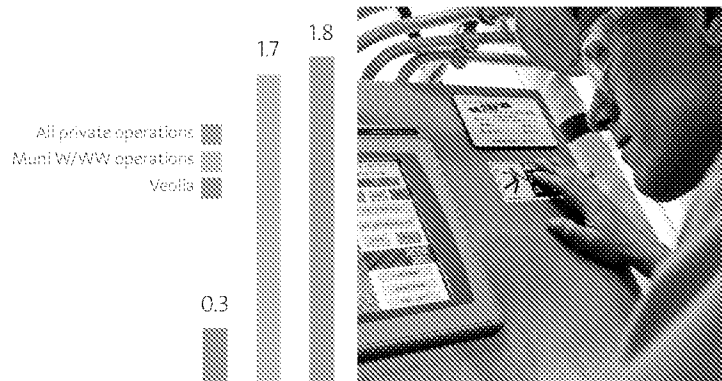
*System Enhancements and Technology*

Veolia through its management contracts is involved in almost all types of technologies, approaches and solutions for water and wastewater treatment. Our R&D investments total more than \$100M a year and have created more than 3,000 patents. The solutions include commonly used technologies like the Actiflo® process.

4. OPERATE THE UTILITY WHILE DRIVING CONTINUOUS IMPROVEMENT IN EFFICIENCY AND QUALITY

4.1 > Operations plan (cont.)

2012 LOST-TIME INCIDENCE RATE: VEOLIA'S SAFETY PERFORMANCE IS 82% BETTER THAN THE NATIONAL AVERAGE



Safety and Security

Safety and security are paramount to the community, customers and personnel. Veolia has the best safety record in the industry. We implement protocols and programs to ensure water quality, review lab results and monitor compliance. This has included even more diligent methods of monitoring not just plants but also distribution and collection systems. Large systems like Shanghai and Berlin now have central command centers for monitoring events.

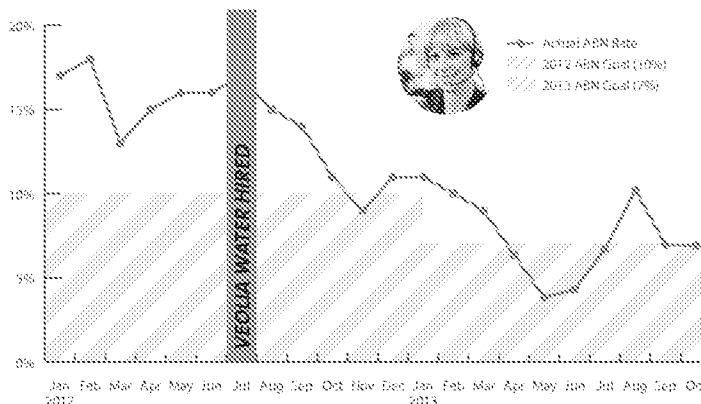
compliance. This has included even more diligent methods of monitoring not just plants but also distribution and collection systems. Large systems like Shanghai and Berlin now have central command centers for monitoring events.

Customer Service and Billing

Veolia will identify and implement opportunities to improve customer service delivery and billing. Veolia has a proven approach to increasing customer satisfaction and verifying complete and accurate billing.

Under Veolia's management Indianapolis saw 90% satisfaction in customer survey results. Buffalo has achieved on-site service calls inside a 2-hour window 90% of the time. Pittsburgh has seen their call wait time drop 45% in less than six months. Internationally, service programs have been provided to cities, with more customer payment locations, text messaging, phone apps and web-based services. Key to all of this will be continuing to build on the recent work to enhance relationships with customers through performance and communication.

PITTSBURGH EXAMPLE: CUSTOMER SERVICE CALL ABANDONMENT RATE (ABN) IMPROVEMENT



Customer Service

Customer Service has been provided and improved, depending upon the needs of the community. Indianapolis saw 90% satisfaction in customer survey results. Buffalo has achieved on-site service calls inside a 2-hour window 90% of the time. Pittsburgh has seen their call wait time drop 45% in less than six months. Internationally, service programs have been provided to cities, with more customer payment locations, text messaging, phone apps and web-based services.

4. OPERATE THE UTILITY WHILE DRIVING CONTINUOUS IMPROVEMENT IN EFFICIENCY AND QUALITY

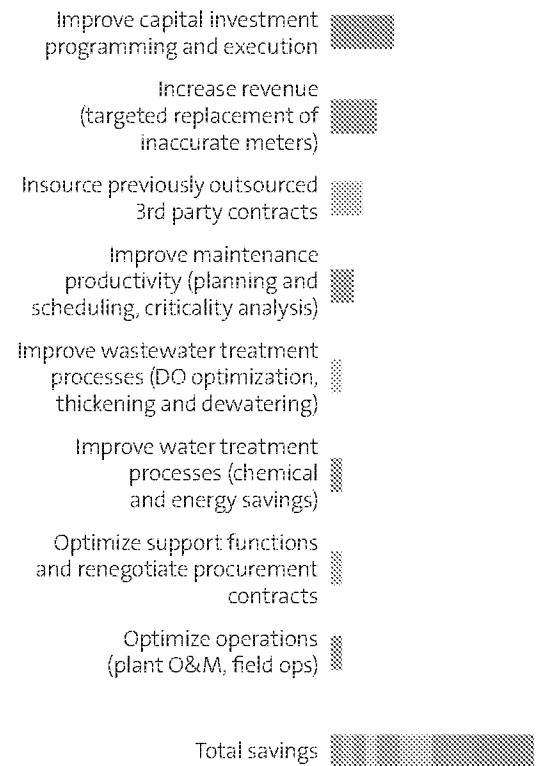
4.2 > Driving improvement

From Hong Kong to Berlin, Veolia brought its operations experience and best practices to overcome their challenges, and we will bring these benefits to DWSD as well.

Here in the U.S., Veolia helped Indianapolis provide a five-year rate freeze in its efforts to acquire and municipalize its water system in 2002. Recently, Veolia helped the New York City Department of Environmental Protection (DEP) quickly save over \$65 million per year from the costs of operating their water and sewer system, with total projected savings and enhanced revenues of up to \$130M a year.

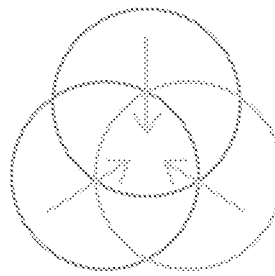
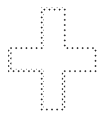
To deliver an increasing amount of savings back to the City in the form of payment in lieu of taxes, Veolia plans on identifying and implementing savings and performance improvement initiatives to optimize DWSD. Our approach combines new technical and procedural solutions with a comprehensive change management approach to deliver meaningful savings across a range of utility focus areas.

Example savings across a range of focus areas



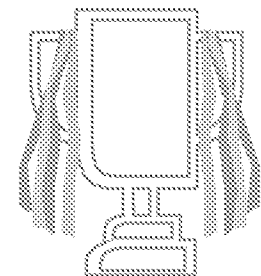
Knowledge Experience

- > Technical knowledge
- > Operational experience
- > Utility management experience
- > Asset management experience
- > Tools, systems, best practices



Change management

- > Project governance and management
- > Employee interactions and communication
- > Mindsets and behaviors



Value

- > Reliable, safe and compliant service
- > Efficient operations
- > Performance improvement
- > Savings and high profitability

S. PROTECT AND EXTEND THE LIFE OF DWS&D'S ASSETS WHILE DESIGNING A NEW CAPITAL PLAN

5.1 > Asset management approach

Veolia's best industry practices approach to asset management recognizes the critical importance of the assets we manage and our unique relationship of trust with our clients and their customers. We have developed a corporate asset management cadre of expert practitioners armed with a highly developed approach to protecting and extending the life of utility assets. This approach is illustrated on the diagram at the bottom of the page. As part of the System Assessment related to asset management, three initial tasks will be conducted:

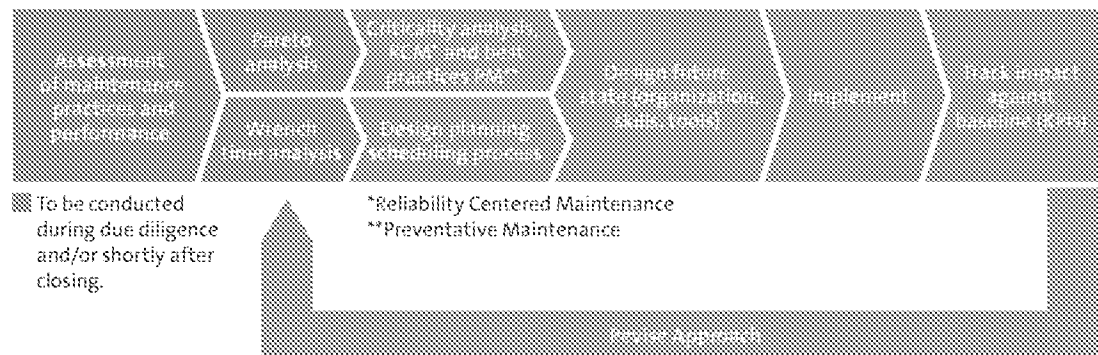
- Assessment of maintenance practices and performance
- Pareto analysis
- Wrench-time analysis (the time spent physically performing work)

To properly develop and prioritize maintenance activities, it is essential to identify which assets are critical to both the facility's operation and the system's operation as a whole. Without a formal criticality ranking of the assets, supervisors rely on their individual understanding of the assets' importance, and, often, essential equipment such as fuses, isolations valves, critical sensors and pipe supports are overlooked in preventive maintenance activities. This approach also

lacks a manager-level review (i.e., someone with a more holistic view of global system operations) of what work is being prioritized. For example, in most water plants, the piping is usually supported throughout the plant with various restraints, cables, rods and hardware. The supports were engineered into the original design to handle the static and dynamic loads of the facility. These support systems are oftentimes "critical" in that their failure would either create a safety issue or a loss of service, but the inspection of these support systems is typically not part of the maintenance plan.

Typical preventive maintenance (PM) programs are developed using the recommended maintenance requirements of the original equipment manufacturers (OEMs), which do not factor the criticality of the equipment and maintenance effectiveness. OEM recommendations do not consider preservation of function, mitigation of failure modes or extension of time between failures, extension of useful life or a cost/benefit analysis of the tasks. Historically, utilities use OEM documents as the basis of maintenance plan development in order to preserve the warranty period. However, these tasks are typically not revisited after the warranty period or evaluated against a risk-based (failure mode-and-effect analysis)

Veolia's asset management approach includes a rigorous process of continual self-evaluation and improvement.



5. PROTECT AND EXTEND THE LIFE OF DWSD'S ASSETS WHILE DESIGNING A NEW CAPITAL PLAN

5.1 > Asset management approach (cont.)

maintenance strategy to determine if these maintenance tasks add value to the operation. This results in misallocation of time and resources on maintenance activities (i.e., typically doing “too many” unnecessary maintenance activities), in addition to possibly inducing equipment failure from OEM’s potentially intrusive maintenance tasks.

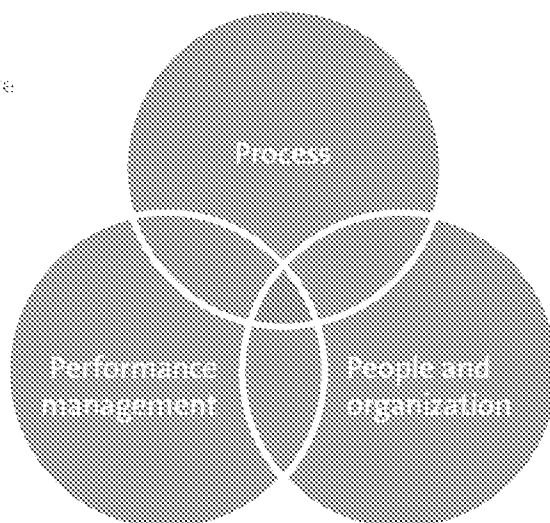
Based on Veolia’s experience and numerous third party engineering studies, performing PM tasks improperly or too frequently increases the likelihood of equipment failure.

Computerized maintenance management systems (CMMS) and the detailed and well-structured job plans they make possible are essential tools for tracking, analyzing and improving maintenance performance. To understand how the maintenance

organization is currently expending its resources, CMMS data including work hours of labor time and material spend must be analyzed to understand where resources are consumed, to help managers effectively reprioritize or refocus maintenance activities. Using a Pareto analysis helps to quickly identify which assets cost the most time and money to maintain.

Veolia’s asset management improvement initiatives design change in process, performance management and people and organization, as illustrated below. Working together, these three elements optimize maintenance performance and reduce life-cycle asset management cost and, often, capital improvement costs by better protecting and extending asset life.

Improving maintenance efficiency will require a comprehensive change management approach.



Performance management:

- Performance management
 - Use of KPIs (CMMS produced)
 - Set clear and reachable targets
 - Performance dialogue to review progress against targets at all levels of the organization
- Support
 - Spare parts and tools management
 - Contractor management
 - CMMS

Process:

- Focus efforts on critical equipment and tasks
 - Formalize criticality analysis
 - Optimize preventive/corrective maintenance balance
 - Focus resource on core activities
- Develop and formalize reliable and efficient planning and scheduling
 - Systematically prepare work orders in CMMS (incl. estimated time)
 - Daily and weekly planning/scheduling meetings
 - Cross-skilled groups for unplanned (emergency) maintenance and groups for routine maintenance
 - Lean work execution and workplace organization
- Reliability-centered maintenance
 - Preserve function of critical equipment
 - Develop the optimum maintenance for critical assets
 - Critical spares determination—Financial impact of failure probability vs. cost of spares

People and organization:

- Capabilities
 - Capability building program focused on cross-skilling and people management
 - Knowledge documentation
- Mindset and behavior
 - Clear accountability
 - Supervisor as role model
 - Encourage supervisor-staff dialogues
 - Early staff check-in for task prioritization
- Organization
 - Clarify organization structure/roles and responsibilities (incl. supervisor's role)
 - Focus on core competencies

S. PROTECT AND EXTEND THE LIFE OF DWSD'S ASSETS WHILE DESIGNING A NEW CAPITAL PLAN

5.2 > Capital Plan aligned with best practices and efficient O&M

As a non-participant in the development of DWSD's capital program, Veolia does not have a vested interest in keeping that program whole and resisting reductions and consolidation of unnecessary scope.

In our experience, there are two key components to the Capital Improvement Program (CIP): Investment in repairs and replacement (R&R) to prolong the lives of the assets; and other new capital projects that are part of the Master Plan to implement the plant's strategic goals. These typically would extend the plant's capacity or improve the quality or reliability of the system, for example, investing in new pumps or flocculation to increase capacity or implementing a new disinfection technology, etc.

The maintenance organization, through the use of the data in the CMMS, provides key input to the projects that are included in the R&R category. The projects on the CIP "bucket list", either through R&R or the Master Plan, need to go through a prioritization exercise that provides evaluation criteria and ranks the projects in order of importance.

The figure below represents the typical CIP processes (in lighter color) the processes we propose to develop to optimize the generation of the CIP, from a cost-benefit perspective. We utilize an asset management approach to optimize the CIP, which uses CMMS data to include asset condition assessments, pareto analysis, and criticality analysis.

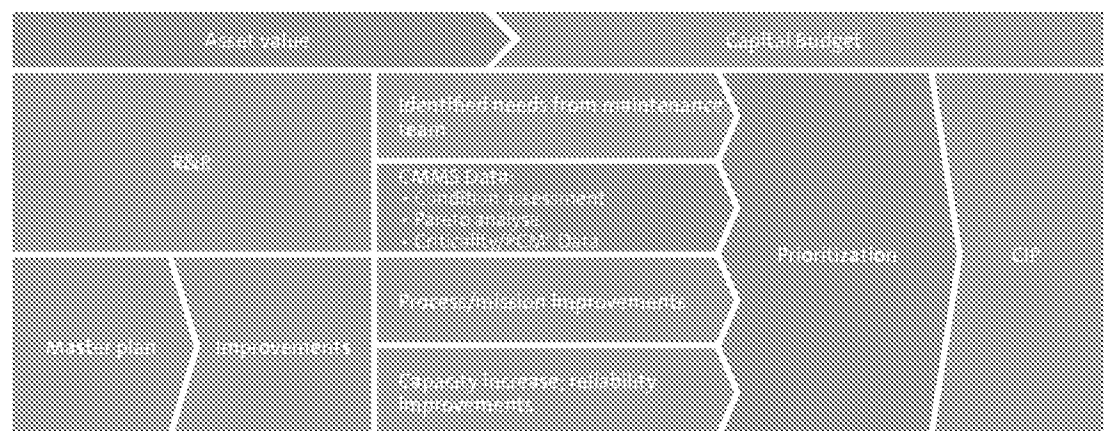
Veolia capital budgets start with asset valuation. Our approach to estimating the total annual cost of maintaining asset is based on the assets' replacement value.

Veolia's prioritization process establishes evaluation criteria, including the completion of business cases to document the need for identified projects. Once the R&R needs have been generated by the maintenance team with the use of CMMS and the Master Plan has identified the mid- and long-term needs and opportunities, a prioritization exercise is required to incorporate the needs into a realistic timeline, within the asset-value established budget.

Veolia's improvements also extend into capital program management, where we select and utilize key performance indicators to track and improve contractor service delivery, including:

- > Deviation of planned budget and planned hours of work.
- > Cost of managing processes (as a % of overall project spend).
- > Percentage of overdue project tasks
- > Budgeted cost of work.
- > Number of milestones missed.

Veolia will work with DWSD staff and consultants to understand the drivers behind the current capital plan, with an eye to establishing a future process budgeted using asset condition based on CMMS data, RSR schedules, and criticality analysis.



Processes typically used by large utilities

Asset management processes used to optimize Capital Plan

*Reliability Centered Maintenance

S. PROTECT AND EXTEND THE LIFE OF DWSD'S ASSETS WHILE DESIGNING A NEW CAPITAL PLAN

5.2 > Capital Plan aligned with best practices and efficient O&M

- > Cost variance over the project lifetime.
- > Percentage of change order cost.
- > Estimate at completion (EAC)—the actual cost of work performed (ACWP) plus the estimate to complete (ETC) for all of the remaining work.
- > Schedule performance.
- > Shop drawing submittal duration.
- > Rework (%).
- > RFI response time.
- > Change order approval duration.
- > Value Engineering savings.

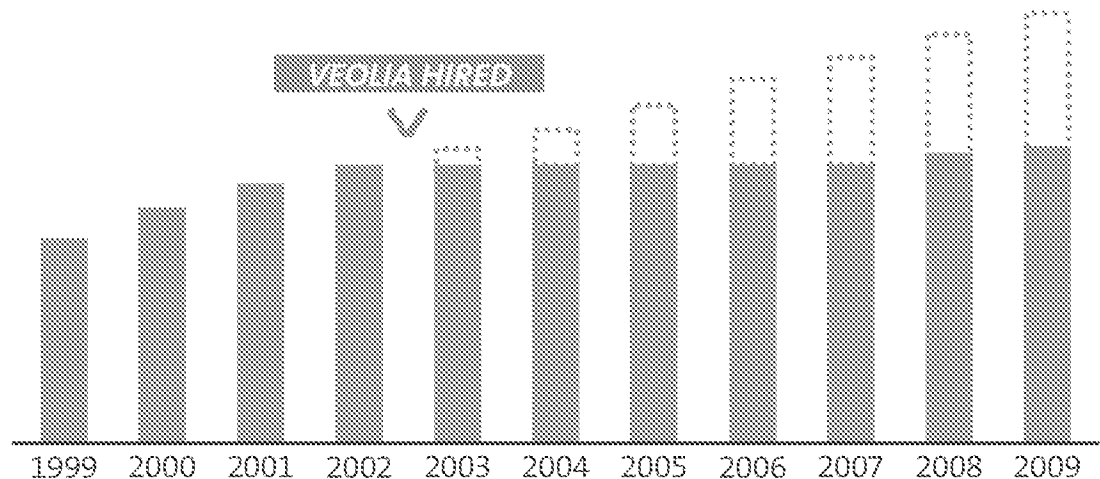
Veolia has been involved in some of the largest capital projects in the world with responsibility for design, construction and operation. This includes Gold Coast Seawater reverse osmosis in Australia (\$1.1B), Scottish Water a \$4.2B construction project of 2,500 activities; design-build-operate-finance projects in America like the DBOF of Tampa Bay Water's 120-MGD surface water plant that generated \$85M in savings, and the repair of New Orleans 122-MGD East Bank Plant ahead of schedule after Hurricane Katrina, followed by \$47M in capital repairs. The managers of those projects are among the resources we

have available to ensure success in protecting and extending the life of DWSD's assets while designing and implementing a new CIP.

Veolia's approach will prioritize and minimize outlays. Veolia's role will be that of a planner and overall coordinator, hiring the services of best-for-project and best-for-program engineering firms and contractors, and challenging the current trend of capital spending. The ability to finance future expansion of DWSD is based on the forecast of a life-cycle-based capital investment program as constrained by affordability to the ratepayers.

The Bid Conditions restrict future elasticity of the customer base to handle additional charges for service. Therefore, what will be needed is strong utility management to control costs and, where possible, generate and/or increase revenue. This highlights the need to evaluate a rate assistance program in conjunction with an enhanced collection plan for the retail and wholesale customer accounts. The bottom line is that the best option will be to implement responsive customer service and diligent monitoring of accounts.

Indianapolis example: Veolia controls costs to enable a 5-year rate freeze while implementing an extensive capital improvements program.



CONCLUSION

➤ Summary and the path forward

Veolia is the
Emergency
Manager's ideal
partner to:

1 > close

2 > transition

3 > lead

4 > operate

5 > protect

With Veolia, the City of Detroit gets an operator and a partner that can:

- **Close** quickly on terms that deliver maximum long-term value to the City.
- **Transition** operational risk and hundreds of employees without disruption of service.
- **Lead** the utility with top managers who get results while building a winning culture.
- **Operate** the utility while driving continuous improvement in efficiency and quality.
- **Protect** and extend the life of DWSD's assets while designing a new capital plan which aligns with global best practices.

The City faces big challenges, but Detroit is not alone – many large cities around the globe have confronted and overcome similar challenges, from Hong Kong to Berlin. Veolia has helped similar sized utilities and brings a proven capability to implement big transactions.

To be an operator worthy of taking on the responsibilities of DWSD, the City's partner must have the highest degree of technical capability and experience, as well as the broadest scope of responsibility in managing utility operations. As the world's largest and most experienced water and wastewater operator, Veolia is uniquely positioned to assist the City of Detroit and deliver best value. Veolia through its management contracts is involved in almost all types of technologies, approaches and solutions for water and wastewater treatment. Veolia research and development investments total more than \$100M a year and have created more than 3,000 patents. Veolia has the best safety record in the industry.

The City's selected operator must demonstrate a world-class team structure featuring all-star leaders. Veolia's diverse team of big-project experts represent the

best and brightest in water and wastewater services, with proven track records of driving improvements.

The City of Detroit needs an operator with the financial capability to assume full risk for operation of DWSD while ensuring uninterrupted service with a strong commitment to customer service. Employing over 200,000 people worldwide, Veolia's financial capability is backed by the stability and diversity of its global operations – and \$31 billion in 2013 revenue.

The challenges of this deal are immense – effective communication, transparency of key performance metrics and strong managerial capability are imperative to ensure success. This utility serves 40% of Michigan's population; it is also a key asset in America's industrial heartland. With Veolia as operator, the City and surrounding communities will be assured industry-leading expertise, leading-edge innovation and industry best practices to receive the vital water and sewer services they need, delivered with superior customer service.

The path forward

Veolia will move quickly to arrive at mutually agreeable terms, complete due diligence, and close on the 20-year contract. Veolia's proposal is supplemented with appendices which include detailed draft transition, operation and maintenance plans. These plans will be finalized in conjunction with the upcoming due diligence period.

Upon closing and throughout the duration of the term, these plans will be continually updated to reflect identified improvements, changes in best practice, and changes in service area or scope. For clarifications to any part of Veolia's proposal, Mark Sanderson remains the point of contact (mark.sanderson@veolia.com).



About Veolia

Veolia is the world's largest environmental company, with over 200,000 employees on five continents. Veolia helps its customers address sustainability challenges in energy, water and waste by providing services and technologies that are safe, cost-effective and innovative. In 2013, Veolia businesses operated in 10 global markets, realizing over \$31 billion in revenue.

Founded in 1853, Veolia celebrates over 160 years of service to cities, regions and local communities.

Veolia now provides public authorities and industries with a range of water, waste-management and energy services vital to human development and sustainable performance in more than 40 countries around the world.

Veolia continues to adapt and innovate in step with economic growth and human development by designing and implementing solutions that will have a positive impact on the environment and resources. Veolia's goal is to build a better 21st century.

Veolia by the numbers

94	million people supplied with drinking water annually
62	million people connected to wastewater systems
4,542	drinking water production plants managed
2,462	wastewater treatment plants managed
770	district and low-voltage heating and cooling networks
4.5	million multi-family housing units provided heating and/or cooling
16.3T	energy of total managed
4,800	industrial energy facilities managed
51	million people provided waste collection services on behalf of local authorities
\$76T	total cost to own from waste management by leading industrial manufacturers
36	million used tons of waste recovered as materials and energy
719	waste treatment plants operated

Resourcing the world

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